R3834-9

THE STATES AND THE POOR

How Budget Decisions in 1991 Affected Low Income People

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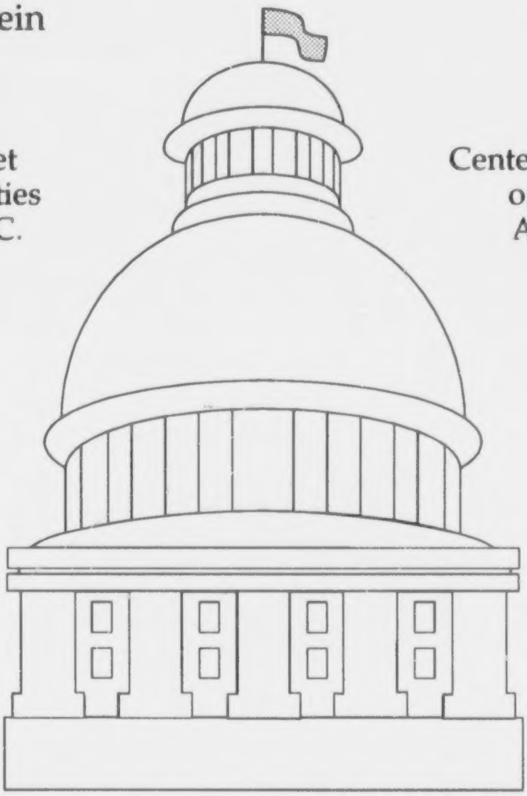

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The Center for the Study of the States is a unit of the Nelson A. Rockefeller Institute of Government, the public policy research arm of the State University of New York. The Institute is directed by Richard P. Nathan, who also serves as Provost of the Rockefeller College of Public Affairs and Policy (which is part of SUNY-Albany). The Center conducts research about state finances and programs and serves as a national information clearinghouse in those areas.

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December 1991

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Acknowledgements

The authors would like to thank the many people who contributed to this project.

First and foremost, our gratitude goes to Tim Meinke of the Center on Budget and Policy Priorities, who conducted many of the state surveys upon which the report was based. His tireless efforts, as well as his good cheer under unreasonable deadlines, were invaluable.

The efforts of many other members of the Center on Budget and Policy Priorities were instrumental to this report. Thanks are due Susan Steinmetz, Robert McCain, Ed Lazere, Carolyn Glover, Art Jaeger, Kristen Monaco, Stefan Harvey, Paul Leonard, Kathy Porter, Marion Nichols, Fred Hutchinson, Sibyll Carnochan, Stephanie Williams, Pamela Sowar, and James Hawkins. Wendy Burnette, Cynthia Williams, and Carolyn Miller prepared the report for publication. The entire staff of the Center for the Study of the States contributed to this report, namely, Sarah Ritchie and Jennifer McCormick.

We owe a special debt to Henry Freedman and the staff of the Center on Social Welfare Policy and Law; the state survey on income assistance programs was done jointly with CSWPL. Thanks also to Jeff Harris of the American Public Welfare Association, who shared information from a survey on Medicaid programs. The National Association of State Budget Officers and the fiscal staff of the National Conference of State Legislatures were very helpful in tracking state tax developments and fiscal policies. The report also reflects the gracious willingness of state officials and members of non-profit organizations across the country to take the time to answer our surveys.

Financial support for the work on this report by the Center on Budget and Policy Priorities came from the Center's various general support funders. The work of the Center for the Study of the States was supported by a grant from the Henry Luce Foundation. Without the support of these foundations, this report would not have been possible.

The authors claim sole responsibility for the contents of the report.

Summary

In 1991, states confronted their most serious fiscal crisis since the recessions of the early 1980s. The economic downturn both depressed revenue and increased the demand for services, aggravating state budget problems. Rising health care, prison, and education costs added to state fiscal woes. According to a May 1991 survey by the National Conference of State Legislatures, prospective state deficits for fiscal year 1992 totaled more than $30 billion.

This study describes how poor people fared in the state tax and spending decisions made in 1991. These decisions primarily affected fiscal year 1992 state budgets, which typically began in July 1991. The report focuses on four important areas: income support, medical care, housing assistance, and tax policy.

In general, the policy choices states made in 1991 hit poor people hard. States cut programs for the poor more sharply than in any year since at least the early 1980s.

- Benefits in the Aid to Families with Dependent Children program were reduced more than in any year since at least 1981, with 40 states freezing or cutting benefits.

- States made cuts in general cash assistance programs that will affect nearly half a million people, about one-third of all GA recipients nationwide. In some states, such as Michigan, the cuts were especially deep and involved termination of benefits for large numbers of indigent people who are now eligible for no monthly cash aid from any level of government.

- Twelve states cut special needs payments and/or emergency cash assistance programs, which are designed in part to avert homelessness, while 10 of the 26 states that appropriate funds for low-income housing reduced these programs. Many of these reductions involved cuts of 20 percent to 100 percent.

- Most of the states that raised taxes in 1991 did so in a regressive manner, taking a larger share of income from the poor than from those at higher income levels.

These cuts come at a time when poverty is rising sharply. Between 1989 and 1990, the number of poor people in the United States rose two million; a still larger increase is expected in 1991. The cuts are especially biting because they coincide with a recession, precisely the time when the safety net is needed most. During recessions, jobs are scarce, and opportunities for upward mobility are diminished. Even many formerly middle-class people may have little choice but to rely on government assistance. A recession is not a time when the poorest and least skilled individuals can readily find employment. In such an economy, cutbacks in the safety net are certain to lead to increased hardship and even to homelessness.

Cash assistance programs for low-income people constitute only a small fraction of state expenditures — five percent nationwide. Nevertheless, in many states, low-income households were hit substantially harder than people at other income levels, losing more in benefits and also contributing a large share of their income in increased taxes.

Income Assistance

The most momentous state decisions affecting low-income people occurred in the area of cash assistance.

Aid to Families with Dependent Children

States determine benefit levels in the AFDC program, which assists families with children. At the start of 1991, AFDC was already providing far less support than in the past. Since 1970, the maximum benefit for a family of three with no other income had fallen 42 percent in the typical state, after adjusting for inflation. State actions in 1991 accelerated the deterioration of AFDC benefits.

- In 40 states, the purchasing power of AFDC benefits declined in fiscal year 1992. (This figure includes the District of Columbia, which is counted as a state in this report.) Basic AFDC benefit levels have kept pace with or exceeded inflation in only 11 states this year.

- Nine states cut basic benefits below previous levels. Michigan cut benefits for families with no other income by 13 percent during winter months (and by six percent for the year as a whole). In California, benefits will fall 21 percent in purchasing power over a five-year period. Tennessee, despite one of the lowest payment levels in the nation, cut benefits five percent and is considering an additional 15 percent reduction.

- An additional 31 states froze AFDC benefits. In these states, the benefits will lose further ground to inflation.

The net effect is the largest state-level reduction in AFDC benefits in at least a decade. In the 10 years from 1981 to 1990, an average of 1.5 states cut benefits each year (compared to nine in 1991), and an average of 25 states either cut or froze benefits (compared to 40 this year). During this same period, an average of 26 states raised AFDC benefits each year, compared to 11 this year. Even during the recession of the early 1980s, the number of states cutting or freezing benefits was much lower than in 1991.

Special Needs and Emergency Assistance Programs

States may also make payments to cover "special needs" of AFDC recipients. These payments are often used to help prevent families from becoming homeless. Five of the 32 states with special needs payments reduced their programs in 1991, with the cuts being especially large in California, Michigan, and Massachusetts. California cut a special needs program designed to prevent homelessness among AFDC families by 35 percent even though its cuts in AFDC benefits could place more families at risk of homelessness. Michigan, which cut AFDC benefits more deeply than any other state, terminated all special needs payments including those to pregnant women. Massachusetts ended special needs payments to help AFDC children buy winter coats and other clothing at the start of the school year.

Some states also run emergency assistance programs designed to provide short-term cash aid to households in crisis. States can restrict these programs to AFDC families only, or they can assist non-AFDC recipients as well. Emergency assistance payments are used for such purposes as preventing eviction by paying rent arrears, preventing utility shut-offs by paying utility bills past-due, or enabling homeless families to move to an apartment.

- Ten states cut emergency assistance programs in 1991. Michigan cut its program by one-third. Massachusetts eliminated $47 million in emergency aid to AFDC families and general assistance recipients. Ohio eliminated its program for GA recipients.

- Five states established new emergency assistance programs or expanded existing ones. With the exception of a $15 million expansion in New Jersey, however, these expansions were quite small.

General Cash Assistance

General assistance is the program of last resort for non-elderly poor people who do not qualify for AFDC or Supplemental Security Income. Typically, general assistance helps single individuals or childless couples who are not elderly, including individuals who are temporarily disabled or who are awaiting a determination of whether they are sufficiently disabled to qualify for SSI. These programs are funded entirely with state funds, local funds, or a combination of the two. No federal standards apply.

The 30 state-funded general assistance programs were hit harder in 1991 than any other set of low-income programs. Fourteen states cut their programs, often extremely deeply. In another 13 states, benefits were frozen and declined in purchasing power. Only three states with extremely small general assistance programs raised benefits.

- *Michigan* terminated its program, ending all monthly cash assistance to 82,000 people.

- *Ohio* slashed its program in half, reducing the maximum benefit for most single individuals to $100 a month — 17 percent of the poverty line — and limiting benefits to six months in a 12-month period.

- *Massachusetts* is cutting at least 10,000 recipients from its rolls.

- *Illinois* enacted reductions that could eliminate benefits for as many as 80,000 to 90,000 people for part of the year.

- *Minnesota* dropped 6,000 recipients from its program.

Altogether, the general assistance cuts affect nearly half a million people, over one-third of all general assistance recipients nationwide. Some of these recipients had their benefits reduced. Others lost all benefits, while some face the prospect of losing their benefits next year if they remain on the program for more than a specified number of months. Most of these people are unlikely to qualify for any other type of cash assistance from the government.

Supplemental Security Income

The SSI program provides cash assistance to poor individuals and couples who are elderly, blind, or disabled. The basic federal SSI grant leaves beneficiaries well below the poverty line. Consequently, 27 states provide supplemental SSI benefits. Unlike the federal grant, very few states index SSI supplemental benefits to inflation.

While failure to update these benefits for inflation has been widespread, benefit reductions have not been.

- This pattern changed in fiscal year 1991 as five states cut their SSI benefits. Four states cut these supplements in fiscal year 1992. Michigan slashed its benefits 54 percent this year, reducing assistance to elderly couples by $300 per year.
- Twenty states froze their SSI supplements in fiscal year 1992, which have declined in purchasing power as a result.
- Three states increased their supplements in fiscal year 1992, but in two states these increases simply restored part of large SSI cuts made the previous year.

Health Programs

The largest reductions in low-income health assistance resulted from the cuts made in general cash assistance programs. Twenty-seven states fund medical assistance programs for low-income residents who receive cash assistance from the state but do not qualify for Medicaid. These programs primarily aid general assistance recipients.

- In 10 states, the elimination of various categories of people from general cash assistance programs meant that some or all of these people lost eligibility for general medical assistance as well. For example, Michigan eliminated general medical assistance for all 82,000 poor people terminated from its general assistance program.

- In addition, eight states made specific cuts to their general medical assistance programs. For example, Illinois and Maryland eliminated all coverage for both inpatient and outpatient hospital services for GA recipients.

Changes in the Medicaid program were mixed. Some states reduced the program, while others expanded it. Some states cut one part of Medicaid but enlarged another. On the cutback side:

- Many individuals who were dropped from AFDC rolls as a result of the AFDC reductions lost Medicaid coverage as well.
- Five states — Florida, Kansas, Maine, Montana, and Oregon — eliminated or made cuts in the "Medically Needy" component of Medicaid, which assists certain low-income households who are not on AFDC or SSI and have large medical bills.
- Sixteen states eliminated or restricted coverage for some Medicaid services. Ten states scaled back prescription drug benefits. Five states reduced coverage for home health assistance. Some states also raised or instituted co-payments.

On the expansion side:

- Eleven states expanded Medicaid eligibility, with eight extending coverage to more near-poor pregnant women and infants.
- Some 20 states expanded services, with the most common action being expanded coverage for prenatal services for pregnant women.

This mixed Medicaid record may change sharply in the coming year. While Medicaid costs continue to grow rapidly, various "bootstrap" financing mechanisms that many states used to help fund their Medicaid programs in fiscal 1992 have been restricted, starting in fiscal year 1993, by a federal law enacted this November. With this funding stream restricted, states may enact deeper program cuts in the coming year.

Housing Programs

For fiscal year 1992, state funding for emergency housing assistance for the homeless fell $43 million, despite likely increases in the homeless population due to both the recession and some of the more severe state budget cuts.

- Ten of the 29 states with emergency housing programs for the homeless cut these programs, with five states cutting their programs more than 30 percent.

- Three of these five states — California, the District of Columbia, and Massachusetts — were states that also made significant cuts in AFDC, general assistance, or both. For example, California, which instituted sizable AFDC reductions, cut its homeless assistance program $22 million, or 35 percent. The District of Columbia cut its homeless housing assistance program $12 million, or 43 percent. Massachusetts sliced $47 million from its emergency assistance program, as noted above.

- Michigan and Ohio, two of the states making the deepest GA cuts, reduced their homeless programs 14 percent and 23 percent, respectively.

Ten states increased the amount spent on these programs. Most of the increase occurred in New Jersey and New York. The average increase in the other eight states amounted to a little over $1 million per state.

State programs to help low and moderate income households secure affordable housing were reduced substantially. Some 26 states appropriate funds for such programs, which include efforts to provide rental assistance to low-income households, facilitate homeownership, and promote new construction or rehabilitation of affordable housing.

- Overall, state affordable housing programs were cut $246 million this year, or 22 percent.

- Ten of the 26 states reduced their affordable housing appropriations. Eight states cut their programs 20 percent or more.

- Ten states increased their budgets, but these increases tended to be quite small. The average increase in these 10 states was $3 million, while in the states that cut their appropriations, the average reduction was $27 million.

Tax Policy

While poor households in many states are being made poorer by program cuts, their taxes generally increased. Not only did state program cuts often hit the poor harder than other groups, but new taxes often hit the poor hardest as well.

This outcome reflects the traditional sources of revenue upon which states rely. The sales tax is the largest generator of state tax revenue. The sales tax is a tax on consumption, which is regressive because the percentage of income that households spend on consumption goods tends to decline as income rises. The one major tax that is progressive is the personal income tax; it typically takes a larger share of income from wealthy households than from poor or middle-income households. Income taxes, however, usually account for well under half of state tax revenues.

Among the 14 states that raised taxes the most for fiscal year 1992, only Connecticut and Rhode Island raised taxes in a clearly progressive manner. They relied primarily on income tax increases. By contrast, Nevada, New Hampshire, and Texas relied almost entirely on regressive taxes. Other states generally combined regressive and progressive taxes, but in most of them the net effect was regressive.

In addition to these 14 states, another 20 states raised taxes by smaller amounts. Their tax increases were overwhelmingly regressive.

Most states have recognized the impact of taxes on the poor by establishing programs that partially shield low-income households from taxation. Some states have followed the example of the federal government and eliminated income tax liability for working poor families, while others provide targeted relief through tax credits that reduce the burden of the local property tax, the sales tax, or the income tax.

This year, six states chose to provide new or expanded tax relief for poor families. On the other hand, three states reduced low-income tax relief programs. There is some overlap here, since two states reduced some relief programs while expanding others.

While the net effect of state tax changes made for fiscal year 1992 was regressive, the number of states incorporating progressive elements in their tax increases was larger than in most years in the recent past. In addition, targeted tax relief for poor households continued to grow in popularity among the states.

Different States, Different Choices

Eight states stand out for the depth and breadth of the cuts they instituted. Of these states, Michigan and Massachusetts made the most dramatic reductions. Both states instituted these cuts even though their unemployment rates stood at about nine percent, making it extremely difficult for poor people to make up the lost income through greater earnings.

- *Michigan* terminated both cash and medical assistance for approximately 82,000 general assistance recipients. It reduced basic AFDC benefits by 13 percent, eliminated all special needs payments for AFDC families — including a winter heating allowance and special needs payments for pregnant women — and cut by one-third the crisis assistance payments it provides to help AFDC families avoid utility shut-offs. The state also slashed SSI state supplements to the elderly poor more than 50 percent.

- *Massachusetts* cut its general assistance program by $56 million; at least 10,000 recipients will lose general cash and medical assistance. The state eliminated emergency assistance payments for GA clients, while sharply scaling back emergency aid for AFDC families. It also slashed its affordable housing program by $134 million.

Cuts in low-income programs were also deep in California, Maryland, Ohio, Illinois, Maine, and the District of Columbia. Most of these eight states faced large budget deficits, but other states with deficits of a comparable size followed a less severe course.

The states that made the deepest cuts tended to be states with stronger-than-average safety nets. At the same time, however, these states tend to have above-average living costs. In addition, other states with stronger-than-average safety nets chose not to make cuts of this magnitude.

Some states were able to close large budget deficits while largely shielding the poor. For example, Pennsylvania faced a deficit equal to 19 percent of the state budget, but closed the deficit without cutting any of the programs examined here. In addition, nearly half of the tax increase Pennsylvania adopted came from the personal income tax; about one-fourth of the tax increase did come from clearly regressive measures, but these were accompanied by some low-income tax relief. Finally, Pennsylvania made some program expansions in the health area. Texas and Vermont are two other states that faced large deficits but chose deficit reduction measures that affected the poor less harshly than the policies of many other states.

The Overall Impact

The reductions states made in low-income programs predominantly affect those with little or no income besides their government support — that is, the poorest of the poor. By contrast, the large federal budget cuts in low-income programs enacted in 1981 primarily affected poor and near-poor families who worked or had other income besides their government assistance. It is likely the state cuts enacted this year in low-income programs will hit the very poor more sharply than any round of either federal or state cuts in recent memory, including the 1981 federal budget cuts.

Data are not available to conduct a detailed analysis across all states of how deficit reduction burdens were distributed among various income groups. It appears evident, however, that the poor shouldered a larger share of deficit reduction than other groups in some identifiable respects. The majority of states raised taxes that take a larger share of income from the poor than from those with higher incomes. Moreover, in states where general assistance and AFDC benefits were cut significantly, recipients of these programs are almost certain to have lost a larger share of their income than any other group.

Implications for the Future

It is entirely possible that poor households will be hit again in 1992 — and hit substantially in a number of states. With the economy remaining weak, many states that believed they had balanced their fiscal year 1992 budget now find they face a deficit. Several states have already responded by instituting a second round of cuts, including cuts in programs for the poor. For example, Florida, Maryland, Arkansas, and Washington have recently instituted cuts in basic low-income programs. In addition, Tennessee's governor has proposed a 15 percent AFDC cut that would drop benefits to $157 a month, 17 percent of the poverty line, for a mother and two children with no other income. In California, the governor has proposed a 25 percent cut for families on AFDC at least six months as well as other AFDC and SSI reductions.

In addition, Maine's governor has proposed terminating general assistance; Maryland's governor has proposed terminating benefits for half the GA caseload and ending an emergency assistance program; and the New York Senate leadership has called for limiting GA benefits for nearly half of current recipients to 60 days out of the year. In the next few months, various states are expected either to call special legislative sessions to consider additional cuts or to institute such cuts by executive action.

The state fiscal picture for fiscal year 1993 is similarly bleak. State deficit forecasts for 1993 resemble those issued a year ago for 1992. Further deficit reduction measures will have to be adopted in many states.

Tax increases will be considerably tougher to pass in 1992, an election year, than in 1991. If taxes will play a smaller role in balancing budgets in 1992, program cuts will loom larger. In this environment, further cuts in programs serving the poor, a politically weak constituency, may appeal to policymakers.

States can, however, choose to approach deficit-reduction with an eye towards ensuring that those with the lowest incomes and those affected most severely by the recession do not bear excessive burdens. This is possible in part because many low-income programs constitute a small proportion of state budgets. For example, there are only four states where the total costs for all cash assistance programs for low-income people exceed six percent of the state budget.

In addition, tax increases should not automatically be ruled out. The vast majority of states did not increase taxes significantly in 1991; only a dozen boosted taxes by an amount equal to at least five percent of total state revenue. States electing to raise taxes can do so in ways that shield the poor. For example, states can choose to raise income taxes primarily or entirely on high income individuals, a course several states followed this year. If states rely more heavily on increases in regressive taxes, they can accompany these tax hikes with expanded tax relief provisions for low- and moderate-income households.

States can also follow a budget principle established at the federal level in recent years. After cutting programs for the poor substantially in the early 1980s, federal policymakers reached a general consensus these cuts had gone far enough (or too far, in some cases) and that further reductions would not be acceptable. From 1983 on, the federal government made few further reductions in major benefit programs for the poor. In fact, the Gramm-Rudman-Hollings law specifically exempts most major low-income benefit programs from the across-the-board cuts it triggers when deficit targets are breached.

Of course, federal policymakers could themselves play a much more constructive role in addressing state budget crises. Sharp federal cuts in grants to states and localities have contributed to state budget problems. The failure of the federal government to provide more anti-recession assistance has shifted more of that burden to states, as well.

Whether or not the federal government plays a more constructive role, however, the key policy decisions on how to balance state budgets remain in the states' hands. States establish their fiscal priorities. These priorities can reflect a commitment to protecting their poorest residents from large cuts or significant tax increases — or they can plunge those whose incomes already fail to meet society's standard for a minimum level of subsistence still deeper into poverty.

I. Introduction

In 1991, state legislators and governors faced their toughest fiscal dilemma since the recessions of the early 1980s. According to a May 1991 survey by the National Conference of State Legislatures, prospective state deficits for fiscal year 1992 totaled more than $30 billion. Two-thirds of the states confronted potential deficits, forcing them to choose between raising taxes and cutting spending. Most did some of each.

This report describes how states treated poor people in the tax and spending decisions made in 1991. These decisions generally were made as part of efforts to balance budgets for fiscal year 1992, which in most states runs from July 1991 through June 1992. Some decisions that states made in 1991 also affected fiscal year 1991 budgets. When possible, those decisions are included here, as well.

This report focuses on four areas: income support, medical care, housing assistance, and tax policy. This coverage encompasses four of the most important ways in which state budgets and tax systems impact poor families and individuals, although this coverage is not comprehensive. Many social services for poor people were affected by this year's budget actions, but changes in funding for those programs lie beyond the scope of this report.

While modest expansions in certain low-income programs did occur in some states in 1991, the policy choices made in many states hit poor people hard. State programs assisting the poor were cut more sharply this year than in any year since at least the early 1980s. Basic income support programs were scaled back especially dramatically.

- The value of benefits provided through the Aid to Families with Dependent Children program, which had already fallen 42 percent in purchasing power since 1970, will decline further in 40 states. AFDC benefits were reduced more substantially this year than in any year since at least 1981.[1]

- General cash assistance programs were subject to the deepest cuts of any low-income program. These programs primarily assist very poor single individuals or childless couples who are not elderly, including very poor individuals who are temporarily disabled or who are awaiting a determination of whether they are sufficiently disabled to qualify for the Supplemental Security Income program.

  Of the 30 state-funded general assistance programs, 14 cut their programs this year, with a number of the cuts being extremely deep. Thirteen other states froze GA benefits; as a result, benefits in these states will decline in purchasing power. In Michigan alone, where the GA program was eliminated, approximately 82,000 people lost all benefits. Most of these people now qualify for no cash assistance from any level of government.

- Special needs payments and/or emergency cash assistance programs, which are designed in part to avert homelessness, were cut in 12 states. For example, Massachusetts eliminated $47 million in emergency assistance to AFDC families and general assistance recipients.

- Twenty-seven states supplement the federal SSI program for poor elderly, blind, or disabled people. Of these states, four cut benefit levels. Twenty others froze benefit levels at their fiscal year 1991 levels; since the supplements will not keep pace with inflation, they will decline in purchasing power.

- Most individuals who lost eligibility for general cash assistance, as well as many who lost eligibility for AFDC, had their health insurance benefits terminated as well.

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[1] The report does not assess the overall strength of the safety nets in individual states. The report primarily examines state cuts or expansions enacted this year. It generally does not discuss whether programs that were reduced or expanded in particular states are stronger or weaker than the same program in the average state. A state may cut its general assistance program, but the program may still be stronger than the average state GA program. Conversely, a state may expand its Medicaid program but still have a weaker-than-average program. A series of reports issued in 1988 by the Center on Budget and Policy Priorities does assess the overall strength of state safety nets. See *Holes in the State Safety Nets: Poverty Programs and Policies in the States*, May 1988.

- Some specific cuts were made in state Medicaid programs, although changes in Medicaid were mixed. Some states reduced Medicaid, while others expanded it. Some states cut one part of Medicaid while enlarging another part. The most common expansion was the extension of Medicaid eligibility to more near-poor pregnant women and infants.

- Of the 29 states with emergency housing programs for the homeless, 10 pared back these programs.[2] Five states cut these programs by more than 30 percent. In addition, 10 of the 26 states appropriating funds to make housing affordable for low- and moderate-income people reduced these programs. The reductions in affordable housing programs totaled $246 million nationally, shrinking these programs by one-fifth.

The decisions made by some states to cut cash assistance programs deeply, while also reducing programs to avert homelessness, are likely to engender more rapid growth in the homeless population. As this analysis goes to press, news reports from Michigan tell of widespread evictions following the implementation there of the most severe low-income cuts in the nation. The reports also describe the deaths of several people who became homeless after their benefits were cut off.

Finally, poor households in many states will be subject to increased taxes at the same time their benefits are being terminated or reduced. Most states that raised taxes in 1991 did so in a regressive manner, with the new taxes taking a larger percentage of income from the poor than from people at higher income levels. Before 1991, the tax system was regressive in nearly every state. After 1991, the tax system in the typical state will be slightly more regressive. At the same time, some states did ease the impact of regressive tax increases through special tax relief provisions designed to shield some of the poor from higher tax burdens, and two states passed tax increases that were progressive — with the new taxes taking a larger percentage of income from those at higher income levels than from the poor.

The Context for These Choices

States encountered tough fiscal problems this year. The weakness in the economy both depressed revenue and increased demand for services. In addition, Medicaid and corrections costs have been rising rapidly for some time due to sharply escalating health care costs, Medicaid eligibility expansions, and increases in the prison population. Education costs are also climbing, with school enrollments now

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[2] Some of these cuts reflect reductions in the emergency cash assistance programs designed in part to assist homelessness.

How the Information was Collected

The information in this report is based primarily on a series of surveys of state budget offices and program agencies, state legislative fiscal staff, and poverty experts in the states. Most of the surveys were conducted by the Center on Budget and Policy Priorities and the Center for the Study of the States. One of the surveys, that on cash assistance programs, was conducted jointly with the Center on Social Welfare Policy and Law. A Medicaid survey by the American Public Welfare Association was also used extensively.

on the rise. In fiscal year 1992, Medicaid costs are projected to grow more than 20 percent. Correction costs and education spending are projected to grow sharply as well.[3] This placed further pressure on state budgets this year and necessitated large program cuts or revenue increases to avoid deficits. Forty-nine states are required by their constitutions or by state law to balance their budgets.

Difficult decisions thus were inevitable. Nevertheless, policymakers had considerable latitude in deciding how to apportion the pain of deficit reduction. Some states responded by shielding the poor in whole or in large part. Other states hit the poor harder than any other group. A strong case can be made that protection for poor people should have been provided, especially given prevailing economic conditions.

A strong safety net is needed most during recessions. Jobs are scarce, and opportunities for upward mobility are diminished. Even many formerly middle-class people may have little choice but to rely on government assistance. A recession is not a time when the poorest and least skilled individuals can readily find employment. In such an economy, cutbacks in the safety net — especially cuts that eliminate aid altogether for the poorest of the poor — are certain to lead to increased hardship and even to homelessness.

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[3] Corina Eckl, Anthony Hutchinson, and Ron Snell, *State Budget and Tax Actions 1991*, National Conference of State Legislatures, November 1991 and Marcia Howard, *Fiscal Survey of the States. October 1991*, National Governors' Association and National Association of State Budget Officers.

NCSL reports that appropriation increases for Medicaid, corrections, and school aid in fiscal year 1992 are 21.8 percent, 8.0 percent, and 8.9 percent, respectively. NCSL also notes that Medicaid and corrections spending are likely to grow even more when supplemental appropriations are taken into account. The increase in school spending partly reflects deferral of a considerable amount of aid from fiscal 1991 to fiscal 1992 as a stop gap measure to avoid 1991 deficits. The increase in school aid in 1991 was only 3.8 percent.

State policy decisions regarding low-income households also need to be assessed in light of recent poverty and income trends. In 1989, even before the recession began, the national poverty rate was higher than in any year of the 1970s. In 1990, the recession set in, and the number of poor jumped more than two million. In 1991, this number is likely to have risen again — and by a substantially larger margin. (Between 1989 and 1990, the number of poor people climbed sharply when the national unemployment rate rose slightly from 5.3 percent to 5.5 percent. In 1991, the unemployment rate has risen more steeply, hovering close to seven percent most of the year.) The poverty rate is probably higher now than at any time in the past 20 years, with the sole exception of the early 1980s when the unemployment rate was close to 10 percent.[4]

Income trends are troubling as well; income is distributed more unevenly today than in the past. Between the late 1970s and the late 1980s, the average after-tax income of the richest one percent of the population more than doubled, after adjusting for inflation. Average incomes for middle-income Americans stayed about the same. But the average income of poor households dropped significantly.[5]

These adverse trends in the 1980s did not occur because of an increased unwillingness among the poor to work. A recent study by a former staff member of President Bush's Council of Economic Advisors has found that low-income households increased their employment levels *more* during the recovery of the 1980s than during the recovery of the 1960s, but gained much less ground because their wages declined in the 1980s.[6] Declines in wages have been particularly sharp for low-paying jobs.

Just as a strong case can be made that states *should* attempt to shield the poor from large budget cuts or tax increases, a strong case can also be made that states *can* shield poor households more than many states did in 1991. Cash assistance programs, the low-income programs hit hardest this year, constitute only a small fraction of state expenditures in virtually every state. Moreover, the fact that some

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[4] The official poverty line varies by the number of people in the family. In 1990, the poverty line for a family of three was $10,419; some 13.5 percent of the population was officially classified as poor.

[5] Data compiled by the Congressional Budget Office published in the *1991 Green Book* issued by the House Committee on Ways and Means show that from 1977 to 1988, the average after-tax income of the poorest fifth of households fell 10 percent. The middle fifth of households experienced an average after-tax income gain of four percent over this period. At the same time, the average after-tax income of the richest one percent of households rose 122 percent. All these figures are adjusted for inflation.

[6] Rebecca Blank, Northwestern University, "Growth is not enough: Why the recovery of the 1980s did so little to reduce poverty," prepared for the use of the Joint Economic Committee of the United States Congress, September 26, 1991.

Recent Federal Budget Actions Shield the Poor from Cuts

Federal budget actions of recent years stand in sharp contrast to this year's state actions. After cutting programs for the poor substantially in the early 1980s, federal policymakers reached a general consensus these cuts had gone far enough (or too far, in some cases) and that further reductions generally would not be acceptable. From 1983 on, few further reductions in major benefit programs for the poor were made at the federal level. Indeed, the federal government has followed the explicit principle of putting such cuts largely off limits; for example, in 1985, most major low-income benefit entitlement programs were exempted from the across-the-board cuts triggered under the Gramm-Rudman-Hollings Balanced Budget Act when deficit targets are missed.

states facing large deficits did largely shield the poor indicates such action is possible. Finally, states electing to raise taxes can do so in a manner that does not place a disproportionately large burden on those least able to pay.

Many states, however, followed a different course in 1991. The state budget decisions of the past year are likely to accelerate the trends toward increased poverty and greater disparities in the distribution of income.

The Year Ahead

In the coming year, states face another round of tough budget decisions. With the economy continuing to perform poorly, revenues are falling behind projections in many jurisdictions. Numerous states face sizable deficits both for the remaining months of the current fiscal year and for the fiscal year that starts in July 1992. Some states are instituting a second round of deficit reduction measures for the current fiscal year. Others are likely to do so in the next month or two.

State policymakers are likely to be reluctant to raise taxes in 1992. This is true even though only 12 states boosted taxes this past year by as much as five percent of total revenue. For some states, a further tax boost would constitute a second consecutive year of tax increases. For most states, it would come in an election year.

The probable alternative is deep spending cuts. Proposals for large, additional cuts in basic programs for the poor — on top of the substantial cuts made in 1991 — are now surfacing in some states.

The findings of this report raise serious concerns about the impact of further cuts aimed at the poor.

II. Income Assistance Policies

The sharpest reductions made this year in state programs that assist the poor occurred in the area of cash assistance. Three different cash assistance programs support different types of low-income households. The Aid to Families with Dependent Children program, or AFDC, assists families with children. The Supplemental Security Income program, or SSI, is the primary cash assistance program for the elderly and disabled poor. General assistance programs serve certain categories of poor households who do not receive AFDC or SSI — primarily single people and childless couples who are not elderly.

States also operate another smaller cash assistance program called Emergency Assistance. This program provides one-time or short-term cash assistance to individuals and families in times of crisis. It plays a key role in preventing homelessness and in helping the homeless to obtain housing.

States made cuts in 1991 in all of these cash assistance programs, with the greatest reductions coming in general assistance and AFDC. The state cuts in AFDC were the largest in at least a decade. Nearly half a million people will be affected by the reductions in general assistance. This represents more than one-third of all general assistance recipients nationwide.

Even before these reductions were made, cash assistance was declining in most states as a percentage of state spending. In fiscal year 1991, cash assistance programs for the poor represented only five percent of state expenditures.

Aid to Families with Dependent Children

The AFDC program is funded jointly by the federal and state governments; on average, states pay 46 percent of total program costs. (In some states, localities also share some of the costs.) This is important in understanding the impact of state budget changes in AFDC spending, including changes in the AFDC emergency assistance program. The effect of these changes on recipient families is magnified because each state benefit dollar cut reduces the benefits provided to families by at least two dollars.

States set AFDC benefit levels. There is no federally-prescribed minimum benefit. In the typical or median state, the benefit in 1991 for a family of three with no other income was $367 a month, or 42 percent of the poverty line. Even when food stamp benefits are added in, the combined benefits in the median state equaled just 72 percent of the poverty line for families with no other income.

At the start of 1991, the AFDC system was providing substantially less support than in the past. Data compiled by the Congressional Research Service show that from 1970 to January 1991, the maximum AFDC benefit for a family of three with no other income declined 42 percent in the typical state, after adjusting for inflation. This reflected a benefit loss of $265 a month, or more than $3,000 on an annual basis.

State actions in 1991 accelerated the deterioration of AFDC benefits. AFDC benefit levels are expected to keep pace with or exceed inflation — currently estimated to be about three percent — in just 11 states in fiscal year 1992. In the 40 other states, the purchasing power of AFDC benefits will erode further.[7] (See Table I.) (For the purposes of this report, the District of Columbia is considered a state.)

In the states in which benefits did not keep pace with inflation, states either reduced or froze benefits. Nine states cut basic benefits below their previous levels for some or all AFDC families. An additional 31 states froze AFDC benefits; in these states, the purchasing power of the benefits has fallen because the benefits have not kept pace with the cost-of-living.

In addition to basic AFDC benefits, states have the option of providing special needs or emergency assistance payments to AFDC families. A number of states cut one or both of these programs in 1991.

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[7] One of the 40 states, Texas, increased benefits for a small portion of its AFDC caseload, as described later in this chapter.

Table I
AFDC Maximum Benefits for Family of Three, January 1991 and January 1992

State	January 1991 Maximum Benefit	January 1992 Maximum Benefit	Percent Change	Percent Change in Purchasing Power
Alabama*	$124	$149	20.2%	16.5%
Alaska	891	924	3.7	0.6
Arizona	293	334	14.0	10.6
Arkansas	204	204	0	-3.0
California	694	663	-4.4	-7.3
Colorado	356	356	0	-3.0
Connecticut	680	680	0	-3.0
Delaware	338	338	0	-3.0
District of Columbia	428	409	-4.4	-7.3
Florida	294	303	3.0	0
Georgia**	280	280	0	-3.0
Hawaii	632	666	5.4	2.2
Idaho	317	317	0	-3.0
Illinois	367	367	0	-3.0
Indiana	288	288	0	-3.0
Iowa	426	426	0	-3.0
Kansas	409	422	3.2	0.1
Kentucky	228	228	0	-3.0
Louisiana	190	190	0	-3.0
Maine***	453	453	0	-3.0
Maryland	406	377	-7.1	-9.9
Massachusetts	539	539	0	-3.0
Michigan+	525	459	-12.6	-15.2
Minnesota	532	532	0	-3.0
Mississippi	120	120	0	-3.0
Missouri	292	292	0	-3.0
Montana	370	390	5.4	2.2
Nebraska	364	364	0	-3.0
Nevada++	330	372	12.7	9.3
New Hampshire	516	516	0	-3.0
New Jersey	424	424	0	-3.0
New Mexico**	310	324	4.5	1.4
New York	577	577	0	-3.0
North Carolina	272	272	0	-3.0
North Dakota	401	401	0	-3.0
Ohio	334	334	0	-3.0
Oklahoma	341	341	0	-3.0
Oregon	444	460	3.6	0.5
Pennsylvania	421	421	0	-3.0
Rhode Island	554	554	0	-3.0
South Carolina	210	210	0	-3.0
South Dakota	385	404	4.9	1.8
Tennessee	195	185	-5.1	-8.0
Texas+++	184	184	0	-3.0
Utah	402	402	0	-3.0
Vermont	679	673	-0.9	-3.9
Virginia	354	354	0	-3.0
Washington	531	531	0	-3.0
West Virginia	249	249	0	-3.0
Wisconsin	517	517	0	-3.0
Wyoming	360	360	0	-3.0

Source: Congressional Research Service, Center on Social Welfare Policy and Law, and Center on Budget and Policy Priorities.

*Alabama raised benefits by different percentages for different family sizes. Across all family size, the average increase is 16 percent.
**Georgia and New Mexico cut benefits for new recipients by delaying the date on which benefits begin.
***Maine cut benefits for AFDC working families through a $79 monthly reduction in the standard of need.
+In Michigan, the cut in winter months is 12.6 percent; on an annual basis, the reduction is 5.9 percent.
++The Nevada increase excluded recipients who receive housing subsidies, about 1/3 of the caseload.
+++Texas increased benefits for a small number of cases by allowing children in an AFDC household who are not part of the immediate family to qualify as a separate case.

Basic Benefit Reductions

The sharpest reductions in purchasing power occurred in the nine states that cut benefits below their previous level for some or all recipients.[8]

- *Michigan* instituted deep reductions in March 1991 when it cut AFDC benefits 17 percent. For a family of three with no other income, this represented a loss of $89 per month.[9] In August, September and October 1991, half of this reduction was restored, and benefits were placed at a level 8.5 percent lower than at the start of 1991. Benefit levels changed again in November and in January 1992.

  As part of these changes, the traditional difference in Michigan between benefits paid in winter months and those paid in summer months is being eliminated, and the same benefit level will be paid year-round. As of January 1, 1992, the maximum benefit will be nearly 13 percent below the January 1, 1991 level; this 13 percent reduction will be in effect through April. During May through October, maximum benefits will be about two percent *higher* than the levels in effect before cuts began being made. On an *annual* basis, benefits will be six percent below the levels that would be in effect if no cuts had been made and benefits had been frozen instead.[10] (These figures somewhat understate the decline in AFDC assistance in Michigan, however, because some families will experience additional benefit losses as a result of cuts in AFDC special needs and emergency assistance payments; these additional reductions are discussed later in this chapter.)

- *Maryland* cut AFDC benefits seven percent on December 1, 1991, the largest year-round cut of any state. For a family of three with no other income, benefits fell to $377 a month, or 41 percent of the poverty line. The governor recently proposed major changes in the AFDC program. Under this proposal, some AFDC families would have their benefits reduced by up to 30 percent.

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[8] New Mexico appears twice — here as one of the nine states which cut the program and later as one of the 12 which increased it — because it did both. The state cut benefits for new recipients while raising basic grant levels 4.5 percent.

[9] AFDC benefits in Michigan vary across localities. The figures used here are for Wayne County, where 46 percent of the AFDC caseload resides.

[10] In December 1991, the Michigan Department of Social Services described current benefits as being three percent lower than the level in effect before cuts began to be made. This figure, however, represents a comparison of *December* benefit levels to the levels that would have been provided in *summer months* if no cuts had been made. Michigan has traditionally provided higher AFDC benefits to most families during the colder months of November through April. If the December 1991 level is compared to what the December level would have been if no cuts had been made, the reduction turns out to be 17 percent, not three percent.

- *Tennessee*, with some of the lowest AFDC benefits in the nation, reduced benefits five percent. For a family of three with no other income, the monthly payment fell to $185 a month, or 20 percent of the poverty line. The governor recently proposed reducing benefits an additional 15 percent. If that proposal is approved, Tennessee would have the second lowest AFDC benefits in the nation.

- *California* reduced benefits 4.4 percent — or $31 a month for a family of three — and suspended its AFDC cost-of-living adjustment until 1996. If the decision regarding cost-of-living adjustments is not changed at some point, the purchasing power of AFDC benefits for a family with no other income will fall 21 percent between January 1991 and January 1996. California has the fifth highest AFDC benefits in the country, but it also has the highest rental housing costs in the U.S. Of the ten major metropolitan areas in the nation with the highest rents, five are in California.[11]

  More cuts may occur next year. In early December 1991, Governor Pete Wilson proposed a state ballot initiative that, if approved, would make what are probably the largest AFDC benefit reductions ever instituted in a state. The proposal would cut AFDC benefits 10 percent across-the-board except for working families, with an additional 15 percent cut after a family's first six months on the program.[12]

  Furthermore, an AFDC mother who has an additional child while on the program would receive no benefit increase to help cover the extra costs of caring for the child, while benefits would be terminated for first-time pregnant women. (They could start receiving benefits only after the child is born) Families who have moved to California from another state would receive the level of benefits provided in their former state during their first 12 months in California. The plan also includes significant cutbacks in SSI, Medicaid and general assistance. It is expected to be on the ballot in November 1992.

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[11] The rental housing figures cited here are based on the U.S. Department of Housing and Urban Development data for 1992 on Fair Market Rents in the 50 largest metropolitan areas in the United States.

[12] The additional 15 percent reduction would not apply to disabled AFDC parents receiving SSI disability payments or in-home supportive services or parents aged 60 or over, but such groups constituted a very small fraction of the caseload. The Governor's plan would also raise benefits $50 a month for teen parents who stay in school and make satisfactory progress and cut them $50 worth for teen parents who drop out.

- The *District of Columbia* cut benefits 4.4 percent for the last quarter of fiscal 1991 and froze benefits at this lower level for fiscal 1992. The District suspended, for fiscal 1992, its automatic cost-of-living-adjustment for AFDC recipients.

- *Maine* reduced benefits up to $79 per month for working AFDC families by lowering its AFDC standard-of-need. This action affected 4,380 families, with 4,100 families undergoing benefit reductions and 280 families losing eligibility altogether. Families without earnings were not affected by these cuts. There is the potential for both further expansions and further reductions in the program early in 1992.[13]

- *Georgia* and *New Mexico* cut benefits for new recipients by delaying the date at which benefits begin to be provided.[14] This action will result in the loss of up to the full first month of benefits for new recipients. Recipients in these two states will lose a total of about $6 million in benefits this year.

- *Vermont* reduced AFDC benefits by one percent.

Because of the way AFDC eligibility is calculated, benefit reductions will cause some families in five jurisdictions — Maine, Maryland, Michigan, Vermont, and the District of Columbia — to lose AFDC benefits entirely. Many people in these families will lose accompanying Medicaid coverage, as well.[15]

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[13] This year, Maine's legislature also approved a new special needs housing allowance of $75 per month for the approximately 30 percent of AFDC families whose shelter and utility costs exceed 90 percent of their income. This new housing allowance was not approved by the U.S. Department of Health and Human Services, which ruled that it failed to comply with federal standards. Current expectations are that the Maine legislature will enact a revised allowance designed to secure HHS approval. Maine continues to experience budget shortfalls, however, and the legislature is also considering a further benefit reduction of $20 a month for working AFDC families.

[14] In Georgia, the previous policy was for benefits for new recipients to begin with the first day of the first month after application for AFDC. Now, new recipients must wait to receive benefits until the actual date their application is approved, or 30 days after application, whichever is sooner. In New Mexico, benefits formerly were provided from the date of application. As of December 1991, new recipients must wait until the date of approval, or 30 days after application, whichever is sooner.

[15] AFDC program rules specify that a family's "countable income" may not exceed 100 percent of the AFDC payment standard. In 42 states and D.C., the payment standard is the same as the maximum benefit level for a family with no other income. This means that when the state reduces benefits, it also lowers the income limits used in the program and thereby shrinks eligibility for the program.

In no state that cut benefits do AFDC benefits — or AFDC benefits combined with food stamps — bring a family to the poverty line. AFDC benefits do exceed the national median, however, in six of the states that reduced benefits this year.

Benefit Freezes

In most other states, benefits were frozen rather than cut. Between fiscal year 1991 and fiscal year 1992, basic AFDC benefits remain unchanged in 31 states. Because of inflation, the purchasing power of benefits in these states will fall approximately three percent.[16]

States with Benefit Increases

Eleven states raised basic AFDC benefits in fiscal year 1992, while a twelfth state raised levels for a small percentage of its caseload.[17] Depending on the exact level of inflation between fiscal years 1991 and 1992, the increases in four of these states are likely to be slightly above or slightly below the inflation rate.[18] These states are Alaska, Florida, Kansas, and Oregon. The purchasing power of AFDC benefits will remain essentially unchanged in these states.

Three states made significant improvements in AFDC benefit levels over and above the rate of inflation.

- *Alabama* lifted maximum benefits an average of 16 percent across all family sizes, raising benefits for three-person families by 20 percent.[19] This raised benefits for a family of three with no other income to just $149 a month, however, or $1,788 on an annual basis. This still leaves Alabama with the second lowest benefit level in the nation. Benefits in Alabama now equal 16 percent of the poverty line.

- *Arizona* raised benefits 14 percent in two steps between May 1991 and July 1991, bringing the maximum benefit for a family of three to $334 a month, or 36 percent of the poverty line. AFDC benefits in Arizona still fall below the national median.[20]

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[16] In one of these states, Iowa, the governor ordered a 3.25 percent across-the-board cut for fiscal year 1992. Although entitlements such as AFDC and SSI were not exempted, the cut has not been implemented yet for these programs. It is expected that cuts in these programs will be avoided by enactment of a supplemental appropriation in early 1992.

[17] Ohio also enacted a benefit increase, but it will not take effect until fiscal year 1993 and is not included here.

[18] These states raised benefits between 3.0 and 3.7 percent.

[19] Alabama raised benefits by a greater percentage for smaller families than for larger families.

- *Nevada* increased benefits 13 percent, raising the state from below the national median to slightly above it. (Recipients who are assisted by government housing subsidies — approximately one-third of AFDC families in the state — will not receive the benefit increase.)

Four states made small improvements.

- *Montana* and *Hawaii* each increased AFDC benefits in July 1991 by 5.4 percent, or slightly larger than the projected inflation rate.[21]

- *South Dakota* increased benefits 4.9 percent, while *New Mexico* raised benefits 4.5 percent.[22] In these states, the increase in the purchasing power of the benefits will be marginal.

The final state among the 12 that raised benefits, Texas, expanded benefits for a very small portion of the caseload by allowing children in an AFDC household who are not part of the immediate family to qualify as separate AFDC cases with higher benefits than they currently receive.[23] Texas froze benefits for all other families.

Overall Effect of Benefit Changes

When all these changes are considered, the net effect is the largest state-level reduction in AFDC in at least a decade.

- In the 10 years from 1981 to 1990, an average of 1.5 states cut their AFDC benefits each year. By contrast, nine states cut benefits in 1991.

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[20] The first increase, in June, reflected the delayed implementation of the fiscal 1991 cost-of-living adjustment. Although the 1991 COLA had been approved, the state did not appropriate enough funding to give recipients the increase until the last month of the fiscal year.

[21] Both states based their benefit increases on the federal Social Security COLA.

[22] New Mexico also cut benefits for new recipients by delaying the date on which benefits begin. The estimated state cost of the 4.5 percent benefit increase is $4.7 million for a full year. The savings to the state from the benefit cut for seven months (the cut took effect December 1991) are estimated to be $2.4 million. On a full year basis, the benefit increase and the benefit reduction come close to balancing each other out.

[23] This change is expected to raised benefits by about $26 per month for between five and 10 percent of the Texas families receiving AFDC.

- Similarly, from 1981 to 1990, an average of 25 states either cut or froze benefits each year. In 1991, some 40 states did.

- During this same period, an average of 26 states per year raised AFDC benefits, although often by too little to keep pace with inflation. In 1991, some 11 states raised benefits.[24]

The reductions in AFDC benefits in 1991 were unusual even for a period of economic downturn. For example, from November 1981 to January 1983 — during a deeper recession than the current downturn — only one state cut benefits, while 25 states raised them.[25] In short, this year's state budget cycle compounded the deterioration of AFDC benefits even as the recession made it more difficult for AFDC recipients to find work and caused more families to seek AFDC assistance.

For most recipients, reductions in AFDC benefit levels are partially offset by increases in food stamp benefits. But food stamps rise only $3 for every $10 in lost AFDC benefits. In addition, food stamps cannot be used to pay expenses such as rent, utilities or transportation.

AFDC benefits have eroded so dramatically over the past two decades that the national average value of AFDC benefits and food stamps *combined* is now down to about the same level, after adjustment for inflation, as AFDC benefits *alone* in 1960, before the food stamp program was created.[26]

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[24] Texas is not included here among the states that raised benefits because benefits were frozen for at least 90 percent of its caseload.

[25] While benefit information is not available for January 1982, the benefit level for November of a given year would normally be the same as the benefit level two months later, in January. Benefit levels usually do not change until the beginning of the next fiscal year which occurs the following July or October in most states. It should be noted that federal cuts in the AFDC program reduced the national caseload by over 400,000 cases and cut benefits for 299,000 families in late 1981 and early 1982. This lowered the costs states otherwise would have faced from rising caseloads and may have reduced pressures in states to cut benefits further.

[26] The average national value of AFDC and food stamp benefits, as cited here, refers to the weighted average figures published by the Ways and Means Committee of the U.S. House of Representatives. The Committee's data show that in 1990, combined AFDC and food stamp benefits for a family of four with no other income were, after adjustment for inflation, only 2.8 percent higher than AFDC benefits alone in 1960. Since AFDC benefits lost further ground to inflation in 1991, and benefits for fiscal year 1992 were cut in some states with large AFDC caseloads, it is likely that combined AFDC and food stamp benefits today are at the AFDC levels for 1960.

Changes in Special Needs Payments

Under the AFDC program, states may also make payments to cover "special needs" of AFDC recipients. Special needs payments are often used to help prevent families from becoming homeless or from losing vital services such as heat in the winter. Special needs for which some states make payments include high shelter, fuel or utility costs, burial costs, clothing, and expenses due to natural disasters or eviction. Special needs payments can be made to a family on an ongoing basis.

As of 1989, some 32 states provided some form of special needs payments. Five of these states — California, Connecticut, Illinois, Massachusetts, and Michigan — cut their special needs programs this year. The largest cuts occurred in California, Michigan and Massachusetts:

- *California* reduced its special needs program for homeless AFDC families by more than a third, cutting the program by $14.3 million. The state limited temporary shelter aid to a family to 16 days; previously, a homeless family could receive temporary shelter for four weeks while it looked for an apartment. In addition, the state limited an AFDC family's eligibility for homeless assistance to once every two years, rather than once a year. The cuts in AFDC homeless assistance come at a time when basic AFDC benefits are being reduced in the state. Since California's housing costs are among the highest in the nation, the simultaneous reduction in both basic AFDC grants and AFDC homeless assistance is likely to increase the risk of homelessness for some families.

- In *Massachusetts*, the state reduced special needs payments by $30 million, eliminating a winter clothing allowance for AFDC children. This allowance had provided children with $150 at the start of each school year for winter coats and other needed clothing.

- *Michigan* eliminated *all* special needs payments for AFDC families, including payments for pregnant women.

Changes in Emergency Assistance

The AFDC emergency assistance program is designed to provide short-term cash assistance to families in crisis. The payments are used for such purposes as preventing eviction by paying rent arrears, preventing utility shut-offs by paying utility bills past-due, or enabling homeless families to move to an apartment by covering the costs of a security deposit and the first month's rent.

Each state decides whether to operate an emergency assistance program. Unlike special needs payments, states can choose to provide emergency assistance both to AFDC families and to non-AFDC families with children who are needy and face a crisis. States operating an emergency assistance program receive federal matching funds, as they do for regular AFDC benefits.[27] In some states, counties or towns also pay some of the costs of the program.

Some states also run emergency assistance programs funded solely with state dollars. These programs are designed to help meet the emergency needs of general assistance recipients who generally do not qualify for any federally-aided cash assistance program. At the beginning of 1991, 12 states operated both types of emergency assistance programs. Nineteen states operated just the AFDC emergency assistance program.

Because both types of programs are optional for states, they are especially vulnerable to cuts when budgets are tight. In 1991, ten states cut these programs. Instituting such cuts in the midst of a recession can have harsh impacts since emergency assistance programs often help prevent people facing a crisis from becoming homeless or assist people who are already homeless in obtaining housing.

- *Massachusetts* eliminated its emergency assistance program for general assistance clients and sharply cut back its program for AFDC and non-AFDC families, causing a loss of $46.6 million a year in emergency aid to these groups.[28]

- *Michigan* cut its crisis assistance program for AFDC families and other needy individuals by about one-third. These crisis assistance payments had helped low income households avoid heat, water and electricity cutoffs, pay rent arrears, and make home repairs.[29]

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[27] However, the matching rate for emergency assistance is set at 50 percent for all states. In most states, this is lower than the matching rate for basic AFDC benefits and AFDC special needs payments.

[28] The amount originally appropriated for fiscal 1992, approximately $39.6 million, represented a $26 million reduction from fiscal 1991 spending for the program. The governor then used his veto power to cut an additional $20.6 million from the program.

[29] The state considers this change to be an elimination of the emergency assistance program and replacement of it with the new Special Emergency Relief program. The new program, however, seems to be similar to the old one, with the key difference being that the payments for various crises are much smaller than under the old program. For example, allowable payments for heat have been cut from $260 to $160 per year and for electricity from $430 to $250.

- *Ohio* abolished its emergency assistance program for general assistance recipients, a cut of approximately $2.2 million. This program had provided benefits averaging approximately $130 to about 2,100 persons each month.

- *Florida* cut its emergency assistance program by more than half. State funding for the program, which served 22,000 families over the course of the year, was reduced by $2.4 million.

- The *District of Columbia* eliminated its emergency assistance program for general assistance recipients and other single individuals under age 60, a budget cut of $2.3 million.

- *Illinois* cut its crisis assistance programs by $3.7 million.

- *Iowa, Nebraska, New York,* and *Oregon* also cut their emergency assistance programs, but the reductions were smaller than those noted above.

Five states took action in 1991 to establish new emergency assistance programs or expand existing ones. With the exception of New Jersey, however, these expansions were quite small compared to the reductions described above. New Jersey expanded its AFDC and general assistance emergency assistance programs by a total of $15 million. The combined increases in the other four states total less than $2 million. Hawaii, for example, started a program to combat homelessness with about $750,000 in state funds. Utah created a small homeless program, with the state share of funding coming from a county community action agency. New Hampshire — whose program has never had sufficient funding to run year-round — added $100,000 a year for the next two years, doubling its program. Arizona, which already had a state-funded emergency assistance program, has begun a federal-state emergency assistance program. State funding in Arizona will remain the same as in fiscal 1991 but the program will provide new benefits of over $300,000, funded by new federal matching dollars.[30]

Effects of Staffing Shortages

The AFDC program has also been hit by staff reductions and hiring freezes. Staff shortages can adversely affect needy families, particularly during a recession when caseloads grow rapidly. These shortages can lead to delays in processing

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[30] The Maine legislature approved an expansion of $250,000 in emergency assistance to take effect in January 1992. This increase has been delayed, however, and as of December 1991, no date had been set for its implementation.

Other Program Reductions

The surveys conducted to gather data for this report focused on the specific benefit programs examined here. Thus, this report does not include comprehensive information on all cuts made this year in benefits for the poor. Some states also reduced other low-income benefit programs. For example:

- Illinois eliminated a $54 million a year state-funded energy assistance program that had benefited all AFDC, SSI and GA clients. Each client or family will lose about $400 a year — $100 per month during four winter months.
- Connecticut, which created a $10 million state-funded energy assistance program last year for low income households, abolished the program in fiscal year 1992.
- Kansas cut back its energy assistance program and will provide such assistance to 9,000 fewer households this winter and 7,000 fewer families next summer.

applications and providing benefits to destitute families. Staff shortages can also lead to delays in adjusting a family's grant level when a change in income or household composition occurs, such as the birth of a new baby, as well as delays in entering a change of address so a family can continue receiving its check after moving.

All but two states report they currently face staff shortages. Some 28 states said, in response to a survey conducted in conjunction with this study, that the number of staff in their welfare agencies has fallen while caseloads have increased. In 21 other states, the number of staff has either remained the same or has increased too little to handle adequately the increased caseloads. Seventeen states reported serious delays in processing applications. Legal action is pending in a number of such states. For example, three states — Nevada, North Carolina, and West Virginia — are under court order for violating federal requirements to process AFDC applications in a timely manner.

General Assistance

General assistance programs provide cash assistance to certain categories of poor households who do not qualify for AFDC or SSI. These programs are funded entirely with state funds, local funds, or a combination of the two. No federal money is involved. Benefits are generally quite low.[31]

General assistance is the program of last resort for poor people who fall through the cracks of the federally-funded safety net. Most commonly, the program serves single individuals or childless couples who are not elderly, including individuals who are disabled for less than a year or who are awaiting a determination of whether they are sufficiently disabled to qualify for SSI.

Because no federal funds are provided, no federal standards apply. The total discretion states have in this area has led to a wide variety of programs, some of which are funded solely by counties or towns, with others funded wholly or partially by the state. This discretion gives states and localities the latitude to scale back or even abolish these programs as they choose.[32]

Because this study is designed to examine *state* budget actions in 1991, we have analyzed changes in general assistance only in states that wholly or partially fund general assistance. Thirty states fall into this category.[33] Changes made at the local level, in locally-financed GA programs, are not covered here.

State general assistance programs were hit harder in 1991 than any other type of low income programs. Some 14 states cut their programs, and in many states, the cuts were extremely deep. One of these states, New Mexico, first raised monthly benefits but then cut program eligibility; the reduction in the program is five times larger than the increase.[34] In 13 additional states, benefits were frozen and declined

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[31] In 1989, general assistance benefits nationally averaged about $215 a month per recipient, or about 39 percent of the poverty line. In many areas, no general assistance benefits are available at all, or they are provided to only a very small fraction of the low income population.

[32] According to a Center on Budget and Policy Priorities analysis of 1989 U.S. Department of Health and Human Services data, six states had no general assistance program in 1989, while an additional 12 had very limited programs. In 11 of the 33 remaining states, general assistance was not available statewide or was restricted to a very small segment of the poor, such as the long-term disabled. In the other 22 states, general assistance was available statewide to a broader range of low income individuals, although in nine of those states, benefits and eligibility varied considerably from county to county.

[33] Some of these state programs are extremely small. The smallest is South Carolina's, which serves fewer than 10 people in an average month.

[34] New Mexico raised benefits by 4.5 percent in July 1991 at a cost to the state of approximately $190,000. It then cut the program in two ways: 1) as of December 1991, new recipients must wait up to a month after application to receive benefits; and 2) as of January 1992, otherwise eligible recipients may receive benefits only for 12 consecutive months in each 18-month period. The time limit is

(continued...)

in purchasing power. Only three states with very small general assistance programs raised benefit levels; those states account for just one percent of the GA caseload nationwide.[35]

Although many states turned to cuts in GA programs this year, these programs make up only a very small share of state budgets and can consequently yield only limited savings. In fiscal 1990, total state expenditures on all types of cash assistance other than AFDC — including SSI state supplements, non-AFDC emergency assistance, and general assistance — amounted to just 1.5 percent of overall state spending. In Michigan, where the deepest cuts in general assistance were made this year, state expenditures for all non-AFDC cash assistance accounted for only 1.8 percent of the state budget in 1990.

The 14 states cutting their GA programs in 1991 were Arizona, Connecticut, the District of Columbia, Illinois, Kansas, Maine, Maryland, Massachusetts, Michigan, Minnesota, New Mexico, New York, Ohio, and Washington.[36]

- *Michigan* eliminated its program, with approximately 82,000 people losing all benefits on October 1, 1991. Most of these individuals now qualify for no cash assistance from the federal, state, or local government. They face a bleak job market in a state with an unemployment rate of about nine percent.

  Michigan established two new, smaller programs for disabled people and families who previously would have qualified for GA. (The former GA recipients who are enrolled in the two new programs are not included in the 82,000 who lost all benefits.) It appears, however, that many of those eligible for the two new programs are unaware of these programs. Approximately 9,700 former GA recipients are thought to be

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[34] (...continued)

effective retroactively — about one-third of the caseload will lose all benefits on January 1, 1992. These two cuts are estimated to save the state approximately $953,000.

[35] The three states that raised benefits are Hawaii, Montana, and Oregon. In June 1991, the most recent month for which these data are available, the combined general assistance caseload of these three states accounted for one percent of the GA caseload nationally.

[36] In addition, Colorado cut its Aid to the Needy Disabled program by barring families from receiving both these state-funded benefits and AFDC. The elimination of dual eligibility will cut benefits by $40 a month for about nine percent of the caseload in the Aid to the Needy Disabled program. Although this Colorado program is similar to some general assistance programs, state officials do not consider it to be a GA program. Accordingly, Colorado is not included here in the list of states cutting back GA.

eligible for the new disability assistance program, but by the end of October, only 5,773 had enrolled.

GA recipients in Michigan had already been sharply affected by large benefit cuts made earlier in the year. Benefits were cut 17 percent for the entire GA caseload in March 1991 through July 1991.[37] In August and September, additional cuts brought the benefit decrease to 29 percent for a majority of the GA caseload.

- *Ohio* sliced its GA program in half. The state cut benefits by a third, from a maximum of $148 a month for most single individuals to $100 a month.[38] This equals 17 percent of the poverty line. In addition, Ohio limited benefits for nearly 90 percent of GA recipients to six months out of a 12-month period.[39] After six months on the program, an individual's benefits will be terminated. This is true even if the individual is indigent and cannot find employment.

  The combined effect of these cuts is to reduce annual GA spending in Ohio from approximately $320 million in fiscal year 1991 to $163 million in fiscal year 1992. Approximately 130,000 recipients are subject to having their benefits cut off if they remain in the program for six months.

- *Massachusetts* eliminated GA for several categories of recipients and narrowed eligibility for the disabled.[40] These reductions will terminate

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[37] At the time of the 17 percent reduction, in March 1991, some 174,000 people received GA benefits in Michigan.

[38] Disabled individuals — who constitute a small fraction of the caseload — had their benefits cut to $115 a month.

[39] The six months need not be consecutive for the limit to apply. The six-month limit applies to all GA recipients except those who are: 1) age 60 or older; 2) pregnant women; 3) children under 18; or 4) those who meet all SSI disability standards except the requirement that a disability last at least 12 months. These disabled individuals will be exempt from the six-month limit if their disability will last at least nine months. These four exempt groups total approximately 13 percent of the GA caseload. Thus, seven of every eight GA recipients in Ohio are potentially subject to the six-month limit.

[40] The categories eliminated were: 1) individuals over age 45 with no recent work history; 2) people recently released from jail (these individuals were formerly eligible for up to two months of benefits); and 3) families who would be eligible for AFDC were it not for the effect of certain AFDC rules on what income is deemed available to the family. In addition, some disabled recipients will be terminated due to a tightening of eligibility criteria for determining who is disabled. The state is in the process of redetermining eligibility of disabled recipients under the new rules; it is not yet known how many will lose their benefits.

$56 million in benefits for at least 10,000 of the state's 38,000 GA recipients.

The state also changed the program from an entitlement, where all who are eligible receive benefits, to a program whose spending is limited by a cap (set at $163 million for fiscal 1992). If, as now expected, the cuts described above do not keep spending below the cap (and supplemental funding is not provided), the governor must make further cuts in eligibility or benefit levels. No legislative approval is needed for these further cuts.

- *Illinois* limited benefits for a majority of its GA caseload to nine months out of a 12-month period for fiscal year 1992 — and six months out of a 12-month period starting in 1993. Between 80,000 and 90,000 recipients will be subject to the time limits.

- *Minnesota* time-limited benefits for some recipients and cut benefits for others.[41] The state placed a five-month time limit on "employable" recipients who are literate and a seven-month limit on those considered illiterate. As a result, 6,000 people lost all GA benefits on December 1, 1991.

  The state has also cut benefits for new recipients. Approximately 20,000 new recipients in fiscal 1992 will lose up to the first full month of benefits. Finally, benefits were also cut for new residents of the state. During their first six months in the state, they may receive only the lesser of 60 percent of the regular GA benefit level or their previous state's benefit level.

- In December 1991, *Maryland* cut monthly benefits 12 percent for its approximately 26,000 general assistance recipients. This reduced monthly benefits for single individuals from $205 per month to $181, or 30 percent of the poverty line.

The cuts in these 14 states will affect nearly half a million people, more than one third of all general assistance recipients nationwide. Some of these recipients had their benefits reduced. Others lost all benefits. Still others face the prospect of losing their benefits next year if they exceed newly imposed time limits.[42]

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[41] Minnesota did make a small positive change, adding "displaced homemakers" to its list of potential recipients.

The approximately 450,000 people affected by these cuts do not include GA recipients in the 13 states that froze benefits. General assistance recipients in those states lost further ground to inflation as the purchasing power of their benefits declined. Also not included are recipients affected by cutbacks in county-funded GA programs. Virginia and California, for example, reduced the amount of assistance that counties are required to provide.

These cutbacks in GA programs are likely to have especially acute effects during a recession. For single people and childless couples who become poor during an economic downturn (and are not either elderly or suffering from a serious long-term disability), general assistance may be the only potential source of cash assistance. This is also true for some unemployed two-parent families with children in which the parents lack enough of a recent work history to meet AFDC eligibility requirements.

Such people are not eligible for AFDC or SSI. Moreover, even if they previously were employed, they may not be receiving unemployment insurance benefits. Since the onset of the recession in July 1990, only about four of every ten unemployed workers have received unemployment benefits in an average month. This is the lowest level ever recorded in a recession. (Federal legislation enacted in November 1991 will provide additional weeks of unemployment benefits to jobless individuals whose unemployment benefits have run out, but this legislation does not affect millions of other jobless people who could not qualify for unemployment benefits to begin with or whose benefit period ended before March 1, 1991.[43])

In addition, further general assistance cuts are likely in coming months. Several states that cut GA in 1991, along with a number of other states, face budget shortfalls both for their 1992 fiscal year and for fiscal year 1993. Proposals for new budget reductions in general assistance are expected.

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[42] The estimate of those affected includes those whose eligibility for benefits is now subject to time limits. There is no way to know at this point precisely how many of these recipients will receive general assistance long enough to exceed the time limit and will have their benefits cut off.

[43] During the persistent high unemployment of the early 1980s, many states faced budget shortfalls in their unemployment insurance accounts and cut back eligibility for their unemployment insurance programs. The proportion of unemployed workers who qualify for state unemployment insurance benefits has been lower now than in previous recessions, and the new federal legislation does not address this matter. In addition, unemployed workers whose benefit period ended before March 1, 1991 are not eligible for the additional weeks of jobless benefits the new law provides. Finally, the new legislation lasts only until mid-June 1992.

In Ohio, for example, it appears the state did not appropriate sufficient funding for general assistance. Either further appropriations or further cuts will be necessary next spring. Massachusetts faces a similar situation, except that no legislative action is needed for the state to institute additional cuts.

In addition, Maine's governor recently proposed eliminating the GA program in that state. Maryland's governor has called for cutting the general assistance program in half and eliminating the state's emergency assistance program. New proposals have surfaced in New York and Connecticut for cuts in eligibility for general assistance. In New York, the state Senate has proposed limiting GA payments for nearly half of its caseload to 60 days out of the year; such a limit could have especially adverse consequences in New York City. Finally, the ballot initiative recently unveiled by California governor Pete Wilson would repeal the provision of state law requiring California counties to run GA programs providing monthly cash assistance to indigent people.

In short, the immediate outlook for general assistance programs — and for hundreds of thousands of indigent people who have no place else to turn besides GA — is grim. The GA cuts made in 1991 and the further cuts expected in 1992 could foster significant increases in destitution and homelessness in a number of states.

Supplemental Security Income

The Supplemental Security Income, or SSI, program provides cash assistance to poor individuals and couples who are elderly, blind or disabled. The basic SSI grant, set nationally and adjusted each year for inflation, is funded in full by the federal government. Because the basic grant leaves SSI beneficiaries well below the poverty line, many states supplement the federal payment with state grants. Overall, 27 states provide SSI supplements for poor elderly individuals and couples, with supplement levels determined by each state.

For households with no other income, the basic federal SSI benefit in 1991 is $407 a month for an individual and $610 a month for a couple. In 1992, these benefits will rise to $422 a month and $633 a month, respectively. The median state SSI supplement in 1991 was $36 a month for elderly individuals and $49 a month for elderly couples.

It is common for states with SSI supplements to fail to keep the supplements up with inflation. As a result, the purchasing power of these benefits has been falling for years. From 1975 to 1991, the value of the SSI supplement for elderly individuals fell 53 percent in the typical state providing a supplement. The supplement for elderly couples fell 65 percent in the typical supplement state. (Because the basic federal payment is adjusted for inflation annually, total SSI

Table II
State Changes in Cash Assistance Programs in 1991

State	AFDC	AFDC Special Needs	Emergency Asst.*	General Asst.**
Alabama	+	no program	no program	no state program
Alaska	+	no program	no program	
Arizona	+	no program		✓
Arkansas			no program	no state program
California	✓	✓	no program	no state program
Colorado		no program	no program	no state program
Connecticut		✓	no program	✓
Delaware		no program		
D.C.	✓	no program	✓	✓
Florida	+	no program	✓	no state program
Georgia	✓		no program	no state program
Hawaii	+		+	+
Idaho			no program	no state program
Illinois		✓	✓	✓
Indiana		no program	no program	no state program
Iowa			✓	no state program
Kansas	+			✓
Kentucky		no program	no program	no state program
Louisiana		no program	no program	no state program
Maine[1]	✓			✓
Maryland	✓			✓
Massachusetts		✓	✓	✓
Michigan	✓	eliminated	✓	eliminated
Minnesota				✓
Mississippi		no program	no program	no state program
Missouri		no program	no program	
Montana	+	no program		+

✓ = Reduced Program + = Increased Program blank cell = No Change

State	AFDC	AFDC Special Needs	Emergency Asst.*	General Asst.
Nebraska			✓	no state program
Nevada	+	no program		no state program
New Hampshire		no program	+	no state program
New Jersey			+	
New Mexico[2]	+ ✓		no program	+ ✓
New York			✓	✓
North Carolina				no state program
North Dakota			no program	no state program
Ohio			✓	✓
Oklahoma				no state program
Oregon	+		✓	+
Pennsylvania				
Rhode Island			no program	
South Carolina		no program	no program	
South Dakota	+	no program	no program	no state program
Tennessee	✓	no program	no program	no state program
Texas	+	no program	no program	no state program
Utah				
Vermont	✓	no program		
Virginia		no program		
Washington				✓
West Virginia				
Wisconsin		no program		
Wyoming		no program		

✓ = Reduced Program

+ = Increased Program

blank cell = No Change

* In some states, this includes assistance for both AFDC and non-AFDC families and individuals.

** No state programs means no state funds are provided for general assistance. There may be a program that is locally funded.

[1] Maine cut benefits for about 4,400 working AFDC families on November 1, 1991. The state legislature had also approved an increase in benefits for about 23,000 AFDC families but the U.S. Department of Health and Human Services did not approve the increase, ruling it violated federal standards. Current expectations are that the legislature will enact revised legislation next year that will be designed to meet HHS requirements.

[2] New Mexico increased benefits for all AFDC families in July 1991; it cut benefits for new recipients in December 1991.

benefits — including both federal payments and state supplements — have fallen by a smaller percentage.)

While failure to update these benefits for inflation has been widespread, actual reductions in benefits have not been. From 1985 to 1990, only one or two states cut benefits in an average year, while a somewhat larger number of states raised benefits (although often by less than the inflation rate).

This pattern changed in fiscal year 1991 when five states cut their SSI benefits. In fiscal year 1992, four states cut SSI supplements and several of the cuts were quite large.

- In *Michigan*, SSI supplements for elderly couples were cut 54 percent, from $46 a month to $21. The monthly supplement for elderly individuals was sliced a similar percentage, from $31 to $14.

  For poor elderly couples, this amounts to a benefit loss of $300 per year, while for individuals the loss is about $200. SSI benefits in Michigan were too small to lift elderly individuals and couples to the poverty line even before the cuts. Now elderly beneficiaries fall farther below the poverty line.

- In *Wisconsin*, SSI supplements were cut $10 a month for individuals and $20 a month for couples, a reduction of between 10 percent and 12 percent.

- The already small SSI supplement in *Utah* was reduced $1 a month to $11 a month for elderly couples and $5 a month for elderly individuals.

- SSI supplements in *Connecticut*, which have been reduced each year since their introduction in 1988, were cut further in 1992. The monthly supplement for elderly individuals was cut nine percent from $359 to $325. The monthly supplement for elderly couples was reduced 12 percent, from $522 to $460. Nevertheless, these supplements remain among the highest in the nation.

  In addition, Connecticut eliminated a program designed to help recipients of SSI supplement meet their utility costs. The program paid 85 percent of the utility bills for supplement recipients.[44]

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[44] In addition to the reductions in these four states, the maximum SSI supplement for poor elderly couples in Minnesota will fall from $132 a month to $129, although this reduction is not the result of a

(continued...)

Three states raised their SSI supplements for fiscal year 1992. One of these states — Alaska — simply kept its benefits even with inflation. Two other states — Nebraska and Colorado — restored part of the large cuts they had made in SSI benefits the previous year.

- In fiscal year 1991, *Nebraska* slashed its SSI supplemental benefits for elderly couples from $65 a month to $34 and cut benefits for elderly individuals from $38 a month to $24. This year, the state restored a small portion of the benefits for couples, raising their SSI supplement to $37. The benefit for elderly individuals was raised to $30.
- Beneficiaries fared better in *Colorado*. Most, though not all, of the cut made a year ago in benefits for elderly individuals was restored, while elderly couples came out ahead. The benefit for elderly individuals, cut from $58 a month to $45 in fiscal year 1991, was placed at $56 for fiscal year 1992. The state supplement for couples, reduced from $309 a month to $293 last year, has now been increased to $323. Nevertheless, this still represents a loss in the purchasing power of the supplement for couples over the two-year period.[45]

In 20 other states, SSI supplements for both elderly individuals and couples were frozen at fiscal year 1991 levels.[46] Because these supplements will not keep pace with inflation, they will decline in purchasing power. In 14 of these 20 states, the SSI state supplement has not changed for at least five years.[47]

In one state that froze SSI supplements — California — the decision to do so represented a break with the past. Prior to fiscal year 1992, California state law

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[44] (...continued)

policy change made during 1991. The SSI supplement for couples in Minnesota is based on a recipient's total income, including the basic federal SSI benefit. When the cost-of-living adjustment in federal SSI benefits takes effect in January 1992, the state supplement for elderly couples with no income other than their SSI benefit will automatically fall to $129 a month.

[45] In Idaho, the maximum SSI supplement for elderly couples will increase from $44 a month to $45 a month, but not as a result of a legislative change. Instead the administrative formula used to calculate the SSI supplement has been modified slightly. This modification has led to the increase in the SSI supplement for couples.

[46] These states are: California, the District of Columbia, Hawaii, Idaho, Illinois, Maine, Massachusetts, Minnesota, Nevada, New Hampshire, New Jersey, New York, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Dakota, Vermont, Washington, and Wyoming.

[47] These states are: the District of Columbia, Hawaii, Illinois, Maine, Massachusetts, Nevada, New Hampshire, New Jersey, Oklahoma, Oregon, Pennsylvania, South Dakota, Washington, and Wyoming.

Table III

Monthly State SSI Supplements for Elderly Individuals Living Alone, 1991 and 1992

State	FY 1991	FY 1992	$ Change	% Change
Alaska	$349	$362	$13	3.7%
California	223	223	0	0
Colorado	45	56	11	24.0
Connecticut	359	325	-34	-9.5
D.C.	15	15	0	0.0
Hawaii	5	5	0	0
Idaho	70	70	0	0
Illinois	NA	NA	NA	NA
Maine	10	10	0	0
Massachusetts	129	129	0	0
Michigan	31	14	-17	-54.8
Minnesota	81	81	0	0
Nebraska	24	30	6	25.0
Nevada	36	36	0	0
New Hampshire	27	27	0	0
New Jersey	31	31	0	0
New York	86	86	0	0
Oklahoma	64	64	0	0
Oregon	2	2	0	0
Pennsylvania	32	32	0	0
Rhode Island	64	64	0	0
South Dakota	15	15	0	0
Utah	6	5	-1	-11.6
Vermont	65	65	0	0
Washington	28	28	0	0
Wisconsin	103	93	-10	-9.7
Wyoming	20	20	0	0

NOTES: Illinois determines supplements on a case-by-case basis.

Source: Survey by Center on Budget and Policy Priorities.

required annual cost-of-living adjustments for SSI supplements. The budget enacted for fiscal year 1992 eliminates the COLA requirement for five years. Furthermore, the ballot initiative recently proposed by the governor would make additional cuts in the SSI supplement in years after 1996. The initiative would not only repeal the COLA requirement; after 1996, it would also reduce SSI supplements one dollar for each dollar the federal SSI benefit rose as a result of the federal COLA.

These cuts and freezes in SSI supplemental benefits will accelerate the long-term slide in the purchasing power of these benefits.

III. Health Programs

Some 27 states fund medical assistance programs for low-income people who receive cash assistance from the state but do not qualify for Medicaid. The primary purpose of these programs is to provide health insurance to general assistance recipients.

In fiscal year 1992, programs providing medical assistance to general assistance recipients were cut sharply. Programs shrank as poor residents in a number of states lost health care coverage when they were cut from general assistance rolls.

The changes in state Medicaid programs constitute more of a mixed story. A number of states limited eligibility or cut services this year, particularly for adults. At the same time, various states expanded eligibility for pregnant women and infants or added new health care services.

State actions affecting another health related program, the Special Supplemental Food Program for Women, Infants and Children, or WIC, were also mixed. Some states cut WIC appropriations; others increased their support.

Medical Aid to General Assistance Recipients

Just as some states provide general cash assistance to certain categories of poor people not eligible for AFDC or SSI, so some states also provide medical assistance to certain groups of the poor not assisted through Medicaid. These general medical assistance programs are funded solely by states or state and local governments and are not subject to any federal standards. They usually serve recipients of whatever state general cash assistance programs exist.[48]

Some 27 states have general medical assistance programs, with some of the programs being much more comprehensive than others. Many of these programs were curtailed by state policy decisions made in 1991. In most cases, reductions in general *cash* assistance programs led to reductions in coverage under these health programs.

- In 10 states, the elimination of certain categories of people from general cash assistance programs meant some or all of these people lost eligibility for general medical assistance as well. These states are: Connecticut, the District of Columbia, Illinois, Kansas, Maryland, Massachusetts, Michigan, Minnesota, Ohio, and Washington.[49]

- In *Michigan*, the elimination of the general medical assistance program was enacted in tandem with the elimination of the general cash assistance program. Approximately 82,000 poor people simultaneously lost both cash assistance and health care coverage.[50]

- When *Ohio* limited eligibility for general assistance benefits to six months out of a 12-month period, it also limited medical assistance to six months out of a year. *Illinois* placed time limits on both cash assistance and health benefits.

In addition, eight states made specific cuts in their general medical assistance programs. Most of these states cut back the health services they cover for people still receiving general cash assistance. The most severe cutbacks were in coverage for hospital services.

- Coverage of inpatient hospital services was eliminated in three states — *Illinois, Maryland,* and *New Jersey.* General assistance recipients in these states no longer have health insurance coverage for inpatient hospital costs.

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[48] Some states have also established small programs for individuals who lack health insurance coverage but do not qualify for either Medicaid or general medical assistance because they do not meet the categorical requirements for these programs or because their incomes are above the very low levels often set for these programs. Such programs are not examined in this report.

[49] Illinois will continue to provide medical assistance for chronically ill general assistance recipients who lose general assistance benefits.

[50] A small fraction of these people may receive some medical services under the state's new medically indigent program.

- *Maryland* and *Illinois* eliminated coverage for outpatient hospital services as well.[51]

- *Ohio* sharply reduced the number of inpatient days it will cover. Previously, coverage was available for hospital stays of up to 30 days, provided there was a 30-day period between hospitalizations. Now, coverage is limited to 12 days of hospital care during the six-month period for which benefits are provided.

- *New York* imposed utilization thresholds on coverage for physician visits, lab procedures, and pharmacy products. Until fiscal year 1992, coverage was unlimited. Now, coverage is available for 14 physician visits, 18 lab procedures, and 43 pharmacy items each year.

Other states enacting specific cuts in their general medical assistance programs include Connecticut, Massachusetts, and Rhode Island. These states eliminated coverage for a variety of health services such as dental, vision, and speech therapy services.

Changes in State Medicaid Programs

State Medicaid expenditures grew faster in fiscal year 1991 than expenditures for any other program. A number of factors contributed to this growth. In many states, more people became eligible for Medicaid as a result of the recession. In addition, costs increased as states implemented federal mandates expanding Medicaid eligibility. The continuing sharp increases in health care costs also greatly affected Medicaid budgets. Finally, a number of successful lawsuits have forced various states to increase payments to Medicaid providers. The National Association of State Budget Officers reports that 36 states spent more on Medicaid in fiscal year 1991 than they had originally budgeted for the program.

Both federal and state funds are used to finance Medicaid, with states paying an average of 42 percent of program costs. States have the primary responsibility, within broad federal guidelines, for administering Medicaid. States make many of the key decisions about where to set income eligibility limits for the program, which groups of individuals to cover, which services to cover, and how much to pay for these services.

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[51] Illinois will continue to provide coverage for hospital services to *families* receiving medical assistance. The vast majority of medical assistance recipients, however, are individuals. Maryland will continue to provide coverage for outpatient emergency care.

In recent years, the ability of states to make changes in Medicaid has been constrained somewhat by federal mandates. Nevertheless, states maintain wide latitude to expand or curtail many aspects of their Medicaid programs.

Changes in Medicaid Eligibility Rules

Federal mandates preclude states from tightening income eligibility rules for several categories of beneficiaries. These include low-income pregnant women, infants, and young children, as well as certain categories of elderly and disabled people known as Qualified Medicare Beneficiaries. (See box on next page.) As a result of the federal mandates, as well as some state policy decisions, Medicaid enrollment by these beneficiary categories has grown significantly. But other categories of beneficiaries remain vulnerable to cutbacks.

Eligibility Limitations

The most significant cuts in Medicaid coverage in fiscal year 1992 came about not as the result of specific changes in Medicaid itself, but as a consequence of reductions in AFDC. If individuals are dropped from AFDC rolls, they are no longer automatically eligible for Medicaid. The AFDC cuts in various states, described in Chapter II, will result in the loss of Medicaid benefits for many people.[52]

In addition, five states — Florida, Kansas, Maine, Montana, and Oregon — instituted cuts in the "Medically Needy" component of Medicaid. Under the Medically Needy program, states may provide Medicaid coverage to families with children and to elderly and disabled people who are not on AFDC or SSI but whose medical expenses are sufficiently large that their remaining income, after medical costs are deducted, falls below Medically Needy income limits set by the state. These income limits may be no higher than 33 percent above a state's maximum AFDC benefit level.

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[52] Certain categories of Medicaid beneficiaries may still qualify for Medicaid coverage even if they lose AFDC benefits. For example, states must provide coverage for pregnant women and children under age six with family incomes below 133 percent of the poverty line. Also, in fiscal year 1992, coverage is required for all children six and seven (and some eight-year olds) from families with incomes below the poverty line. As a result, in some families cut from AFDC, pregnant women and young children in the family may remain eligible for Medicaid while other adults and older children are cut from the Medicaid rolls. Federal law requires that an automatic redetermination of eligibility for Medicaid be made when AFDC recipients lose their cash benefits.

Medicaid Eligibility Rules

Medicaid is intended to provide health care coverage for two broad groups of beneficiaries: 1) low income families with children; and 2) low income elderly people and people with disabilities. Within each of these two groups, federal law defines categories of people who must be eligible for Medicaid benefits and other categories of people that may be covered at state option.

Coverage Related to Cash Assistance Programs

In general, states must provide Medicaid coverage for individuals who receive cash assistance under a federally aided welfare program. Thus, individuals who receive cash assistance under AFDC are automatically eligible for Medicaid. Similarly, most SSI beneficiaries are automatically eligible for Medicaid.

Other Coverage for Pregnant Women and Infants

Since April 1, 1990, states have been required to extend Medicaid eligibility to pregnant women, infants, and children under age six with family incomes below 133 percent of the federal poverty line. States have the option of providing Medicaid coverage for pregnant women and infants with incomes between 133 percent and 185 percent of the poverty line.

Other Coverage for Children

As of July 1, 1991, states are also required to extend coverage to poor children from the ages of six through 18 who were born after September 30, 1983. This requirement will effectively phase in Medicaid coverage for virtually all poor children over the next 11 years. Currently, states must cover all poor children aged six and seven. By October 1, 2002, poor children through age 18 will be eligible for Medicaid.

Other Coverage for People Who are Elderly or have Disabilities

States are required to provide a limited form of coverage for certain low-income people who are elderly or have disabilities. These people, known as Qualified Medicare Beneficiaries (or QMBs), have incomes below the poverty line but are not otherwise eligible for Medicaid in their state. Under the QMB program, these people qualify for a limited form of Medicaid assistance. State Medicaid programs must pay the premiums, deductibles, and other costs that Qualified Medicare Beneficiaries must incur to receive health care coverage under Medicare.

States also have the option of expanding full Medicaid coverage for poor people who are elderly or have disabilities by establishing Medicaid income limits for these groups at up to 100 percent of the poverty line. In states electing this option, elderly and disabled people with incomes below the poverty line receive full Medicaid coverage regardless of whether they are on SSI.

The Optional Medically Needy Program

States may also operate a "Medically Needy" component of Medicaid. Under the Medically Needy component, states may provide Medicaid coverage to families with children — and to elderly people and people with disabilities — whose medical expenses are so large that their remaining income, after medical expenses are deducted, falls below Medically Needy income limits established by the state.

Medically Needy income limits can be set up to one-third higher than the state's maximum benefit level for AFDC. Families with incomes between the state's AFDC income limit and the state's Medically Needy income limit become eligible for Medicaid even if they do not have medical bills to deduct from their income.

- *Florida* terminated its Medically Needy program; state costs for the program had been $11.2 million.

- In *Maine*, the Medically Needy income limit was reduced 25 percent. As a result, approximately 1,800 people lost Medicaid coverage. Most of those affected were children and their parents.

- Until fiscal year 1992, *Kansas, Montana* and *Oregon* provided coverage through their Medically Needy programs for some low-income children and their adult caretakers. (These adults could be either parents or other relatives.) Now, however, these states cover only the children in these families; the adults are no longer eligible for Medicaid. Approximately 6,000 adults lost Medicaid coverage in Oregon as a result of this change. Kansas cut approximately 1,700 adults from its Medicaid program. Montana terminated Medicaid coverage for almost 400 adults.

Eligibility Expansions

While some states reduced Medicaid eligibility, other states expanded it, most commonly for pregnant women and infants.

- Eight states increased Medicaid income eligibility limits for pregnant women and infants above the federally mandated level of 133 percent of the federal poverty line.

- *Indiana* and *Oklahoma* raised the income limit for pregnant women and infants to 150 percent of the federal poverty line, while *Delaware* raised the limit to 160 percent of the poverty line. *Arkansas, New Jersey, New Mexico, Tennessee* and *Texas* increased the limit to 185 percent of the poverty line.[53]

Other eligibility expansions occurred in three states.

- *Arkansas* established a Medically Needy program.

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[53] Generally, financial eligibility determinations for Medicaid are based on family income and assets. States may, however, choose to make eligibility determinations for pregnant women and infants on the basis of family income alone. Most states have eliminated assets tests for these applicants. Texas eliminated the assets test for pregnant women, starting in fiscal year 1992.

- *Louisiana* added a new category of beneficiaries to the Medically Needy program — certain children and their parents or caretakers can now qualify for Medicaid benefits.

- *Wisconsin* extended Medicaid benefits to children aged 18. Previously, coverage had stopped at the 18th birthday.

Changes in Medicaid Services

Federal law requires that for all mandatory categories of Medicaid beneficiaries, state Medicaid programs must provide coverage for 10 core services. States decide whether to provide coverage for more than 30 additional medical services.

In addition to largely determining which services Medicaid covers, states may restrict the amount, duration, and scope of various services. For example, some states place limits on the number of days of hospital care or the number of physician visits covered in a year. States may also impose copayments for some services on beneficiaries.

In one area, many states are being required to expand services. Federal law requires states to increase enrollment and expand services in the Medicaid Early and Periodic Screening Diagnosis and Treatment program. EPSDT provides coverage for routine screening visits to identify health problems in children under 21 years of age. Under recent changes in federal law, state Medicaid programs must cover the cost of treating problems discovered during these screening visits, even if the treatment involves services not normally covered under the state's Medicaid plan.

Twenty states reported making no changes in Medicaid service coverage for fiscal year 1992. In 16 states, coverage for some services was either eliminated or limited. Some 20 states expanded some Medicaid services. Some states cut some services while expanding others.

It is difficult to assess the net effect of these changes. They encompass a wide range of services. Also, few states chose to expand or limit services in the same way. The discussion below highlights some changes states made in their Medicaid benefit packages.

Service Limitations

Ten states scaled back Medicaid prescription drug benefits.

- Six of these states — *Maine, Maryland, Michigan, North Carolina, Pennsylvania,* and *South Carolina* — increased copayments for prescription drugs.

- Four states — *Connecticut, Florida, Georgia,* and *New York* — used other techniques to reduce coverage for prescription drugs. Some states reduced the maximum number of prescriptions covered per month. Another technique was to limit or eliminate coverage for several types of drugs.

These restrictions should result in short-term savings. There could, however, be long-term costs. Some beneficiaries may fail to take drugs prescribed to control medical conditions because they cannot afford them. If their conditions worsen, they may be forced to seek more complex and costly medical treatment.

In addition to these restrictions on prescription drug coverage, some states limited coverage for hospital admissions, physician visits, and lab tests.

- *South Carolina,* which previously did not impose limits on coverage for hospital admissions, established a limit of three admissions per year. South Carolina also limited coverage for physician visits to 12 per year.

- *New York* restricted physician visits, limiting coverage to 14 per year. In addition, New York limited lab procedures to 18 per year and prescriptions to 60 items per year. None of these services had been limited prior to fiscal year 1992.

These restrictions are unlikely to affect healthy beneficiaries, but could be problematic for individuals with chronic conditions and for elderly people who must be monitored and may need treatment for a number of conditions.

Two states attempted to control service use by raising or imposing copayments.

- *North Carolina* increased the fee for physician visits from fifty cents per visit to $2.

- *Vermont* imposed a $50 copayment for each day of inpatient hospital care and a $3 copayment for outpatient care.

A number of states weakened coverage for home health care services.

- *Georgia* and *South Carolina* reduced the number of home health visits they cover.

- *Michigan* and the *District of Columbia* discontinued coverage for specific types of home services.

- *Oregon* restricted access to home-based services by raising the level of impairment a beneficiary must have to qualify for these services.

Several other types of restrictions were adopted by at least three states. Georgia, Maine, Missouri, and Oregon reduced coverage for dental services. Connecticut, Georgia, and Illinois limited podiatry services.

Oregon made major changes to the service component of the Medically Needy program for the elderly. Prior to fiscal year 1992, Oregon provided coverage for a number of services in the Medically Needy program. Now, the Medically Needy program for the elderly is limited to coverage for prescription drugs and mental health services.

Service Expansions

Twenty states initiated service expansions. Some states expanded some services while restricting others. For example, Missouri expanded treatment for substance abuse treatment and rehabilitation, while limiting dental services. Georgia placed restrictions on prescription drug and home health benefits while it enhanced services for pregnant women.

Six states, in addition to Georgia, expanded coverage of prenatal services for pregnant women. In these states — Delaware, Louisiana, Montana, North Carolina, Oklahoma, and Texas — the expansions frequently were part of broader initiatives to improve maternal and child health services.

The one other service expansion that several states adopted is coverage for dental services. Hawaii, Idaho, South Dakota, and Wisconsin increased coverage in this area.

Finally, Alabama increased the limit on hospital inpatient days from 14 to 16 per year and raised its limit on physician visits from 12 to 14 per year.[54]

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[54] Almost all states were surveyed regarding changes in fees for Medicaid providers. The responses from states were consistent. Few reported reducing provider fees. Most states are reluctant to decrease fees paid to providers since in most states Medicaid fees are already much lower than fees

(continued...)

Outlook for Medicaid

Overall, state Medicaid programs fared better in fiscal year 1992 than might have been expected. There are signs, however, that budgetary pressures may yet result in more Medicaid cuts this year. With new budget projections showing a growing number of states facing deficits for the current fiscal year — due in part to the continued poor performance of the economy — further Medicaid reductions are likely.

- *Arkansas* expanded Medicaid coverage for certain medical services for adults in fiscal year 1992, but that change was in effect only a few months. Beginning December 1, 1991, the expansions were rescinded. In addition, new limits were placed on inpatient and outpatient hospital stays for adults.

- In *Washington,* recent executive actions to close the state's budget deficit include the elimination of coverage for a range of Medicaid services for adult Medicaid beneficiaries, effective December 1.

- In *Florida,* the governor called a special December legislative session to consider budget-cutting measures. This session resulted in the termination of the Medically Needy program, a sharp scaling back of Medicaid assistance for elderly and disabled people with incomes between 90 percent and 100 percent of the poverty line, and reductions in coverage for certain medical services.

- *New York* is currently considering Medicaid cuts larger in dollar terms than these adopted in any other state in 1991.

Additional Medicaid cuts may result from passage of recent federal legislation that restricts the mechanisms states can use to generate state Medicaid funds matched by the federal government. In preparing their fiscal year 1992 budgets, many states avoided Medicaid cuts — and some states initiated Medicaid expansions — by using "bootstrap" financing techniques to increase state Medicaid funding and thereby boost federal matching funds. As of September 1991, some 27 states were securing funds to help pay their share of Medicaid costs by imposing special taxes on Medicaid

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[54] (...continued)

paid by other insurers. Moreover, recent federal legislation directs state Medicaid programs to review reimbursement rates for obstetricians and pediatricians and increase the rates, if necessary, to enlist maternal and child health care providers in Medicaid. Also, several states are under court order to raise Medicaid payments to hospitals and nursing homes. Still, four of the states surveyed — Colorado, Georgia, Michigan and Utah — reported they reduced reimbursement rates for some providers.

providers such as hospitals. In addition, 21 states were using monetary contributions from Medicaid providers to qualify for more federal matching money.[55] Since the federal government provides at least one dollar in federal funds for each dollar of state Medicaid funds (and in some very poor states, provides nearly $5 in federal funds for each state Medicaid dollar), these taxes and donations have leveraged considerable federal resources for state Medicaid programs.

In September 1991 and October 1991, however, the federal government issued regulations — which were set to take effect January 1 — severely restricting states' ability to use these financing mechanisms. The issuance of these regulations provoked bitter protests by states and led to negotiations between states and Bush Administration officials. In November, the negotiators reached an agreement, which superceded the regulations and was codified in legislation and enacted before Congress adjourned. While less severe than the regulations would have been, it still places major new limitations on the bootstrap funding mechanisms states can employ.

Under the new law, states will no longer receive federal funds to match funds they raise through donations from Medicaid providers, except in limited circumstances. Funds raised through taxes on providers can still qualify for federal matching money, but only if the taxes meet certain criteria prescribed in the law. In addition, in most states, no more than 25 percent of state Medicaid funds will be permitted to come from provider taxes.[56]

In most cases, these new restrictions do not take effect until a state's 1993 fiscal year and hence should not lead to further Medicaid reductions in fiscal year 1992. But when states formulate their 1993 budgets, many will have to contend not only with the likelihood of continued large increases in Medicaid costs, but also with a diminished capacity to raise program funds. In some states, the consequences could be severe.

Earlier this year, for example, Michigan's governor proposed eliminating 15 of the 27 optional medical services the state Medicaid program covers. He subsequently agreed to maintain these services by using funds from voluntary hospital contributions. If federal funds are no longer available to match such contributions, the state might again consider cuts of this nature.

To be sure, the law permits states to design new broad-based provider taxes to replace existing fundraising mechanisms that will now be barred. But some states seeking to follow this course may encounter significant obstacles. There may, for example, be political opposition to new broad-based provider taxes. In addition, the new law is extremely complex. Until detailed federal guidance is provided on just which types of provider taxes are permitted and which are not, many states may be reluctant to develop proposals for such taxes.

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[55] These figures on the number of states using bootstrap financing techniques come from the House Committee on Energy and Commerce.

[56] The law also limits payments to disproportionate share hospitals. In some states, this restriction, too, is likely to cause budgetary problems.

The new legislation is likely to make it more difficult for states to raise the funds to cover their ever-mounting Medicaid costs. As a result, more states may consider significant cutbacks in Medicaid — and possibly in other health and social programs as well, due to the intensified fiscal pressures the new Medicaid rules may create.

Changes in State Funding for the WIC Program

One final health-related program examined here is the Special Supplemental Food Program for Women, Infants, and Children, otherwise known as WIC. This program provides specific foods, nutrition screening, and nutrition counseling to pregnant and post-partum women, infants, and children under five years of age. Women and children are eligible for the program if their family income is below 185 percent of the poverty line and they are determined to be at nutritional risk.

WIC is widely regarded as one of the nation's most effective social programs. A substantial body of medical research demonstrates that the program reduces infant mortality and low birthweight and results in greater use of prenatal and pediatric care by vulnerable populations. The program also has been found to produce savings in Medicaid as a result of its success in reducing the number of low birthweight infants requiring hospitalization after birth. The federal WIC program is not an entitlement, however, and serves only 55 percent to 60 percent of those eligible. As a result, some states appropriate funds for WIC to supplement the federal funds and enable a larger share of the state's eligible population to be reached.

In fiscal year 1992, the number of states providing funding for WIC rose from 18 to 19. The total amount of state funding provided rose from $85 million to slightly over $90 million. Three states that had not provided funds the previous year — Arizona, Nevada, and New Mexico — began providing funds. At the same time, two states that had funded WIC in fiscal year 1991 — Hawaii and Michigan — are providing no funds this year.

Five states increased the amount of funding they provide for WIC, while another five states reduced their support.[57] In Massachusetts, Minnesota, North

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[57] A cut of nearly $500,000 is pending in Washington.

Carolina, Pennsylvania, and Washington, state WIC funding grew. In Delaware, Indiana, New Hampshire, Texas, and Wisconsin, state funding decreased. (See Table IV.)

Table IV
State WIC Appropriations, Fiscal Years 1991 and 1992

State	FY 1991	FY 1992	$ Change	% Change
Alaska	$67,000	$67,000	$0	0%
Arizona	0	1,000,000	1,000,000	na
Connecticut[1]	118,000	118,000	0	0
Delaware	390,000	230,000	-160,000	-41.1
District of Columbia	600,000	600,000	0	0
Hawaii	50,000	0	-50,000	na
Illinois	6,600,000	6,600,000	0	0
Indiana[1]	200,000	190,000	-10,000	-5.0
Iowa[2]	200,000	100,000	0	0
Massachusetts	4,534,000	7,449,000	2,915,000	64.3
Michigan[1]	387,000	0	-387,000	-100.0
Minnesota[4]	750,000	1,150,000	400,000	53.3
Nevada[4]	0	300,000	300,000	na
New Hampshire[1]	96,000	89,000	-7,000	-7.2
New Jersey[2]	750,000	750,000	0	0
New Mexico[1]	0	400,000	400,000	na
New York	42,064,000	42,064,000	0	0
North Carolina[3]	1,307,000	1,920,000	613,700	46.9
Pennsylvania	14,900,000	16,700,000	1,950,000	13.1
Texas[4]	5,567,000	3,300,000	-2,267,000	-40.7
Washington[4]	2,444,000	3,750,000	1,306,000	53.4
West Virginia	400,000	400,000	0	0
Wisconsin[4]	3,931,000	3,853,000	-78,000	-2.0
Total	84,851,000	90,580,000	5,729,000	7.0

Unless otherwise noted, funds are for food, nutrition services, and program administration.

1. Funds are for nutrition services and program administration only.

2. Contingency funds. These funds are to be used only if for unforeseen reasons, a state's WIC expenditures exceed the state's federal WIC allocation. Since these contingency funds usually are not used, these amounts are not included in the totals shown here.

3. Funds are for food only.

4. Minnesota, Nevada, Texas, Washington, and Wisconsin appropriate funds on a biennial budget. The figures here reflect the amounts appropriated per fiscal year.

Source: Center on Budget and Policy Priorities

IV. Homeless Assistance and Housing Budgets

The homeless population is likely to be growing now due to the recession as well as some of the cuts described earlier in this report. Some states took action in 1991, however, to reduce programs addressing the emergency housing needs of the homeless. Many states also cut funding for low income housing programs.

Of the 29 states with emergency housing assistance programs for the homeless, 10 reduced these programs. Five states cut their programs more than 30 percent, while nine instituted reductions of at least 12 percent. Some of the largest reductions came in states that were also making major reductions in general assistance and AFDC, thereby placing more people at risk of homelessness.

State programs to address the severe shortage of housing that is affordable for low income households fared badly this year. Nearly half of the 26 states appropriating funds for low income housing programs reduced these appropriations. Eight states cut their programs 20 percent or more. While a few states increased funding for these programs, total state funding for low income housing programs was cut $246 million nationwide, a reduction of one-fifth.

Emergency Housing Programs For The Homeless

Various federal assistance programs for the homeless are funded under the Stewart B. McKinney Homeless Assistance Act, but those programs serve only a small fraction of the nation's growing homeless population. To help address unmet needs, some 29 states provide state funds for programs to address the emergency housing needs of the homeless or of people threatened with homelessness. These include programs that provide operating grants to shelters, transitional housing programs for homeless people, and a number of the emergency assistance and special needs programs discussed in the income assistance chapter.[58]

In fiscal year 1992, total state appropriations for these emergency housing programs for the homeless were cut $43 million, or more than 10 percent after inflation is taken into account.[59] This reduction comes at a time when homelessness is likely to be rising significantly as a result of the recession. Moreover, sharp cuts in basic cash assistance programs in some states, especially in general assistance, are almost certain to increase further the numbers of people who are homeless or at risk of homelessness.

The largest dollar reductions in emergency housing programs for the homeless occurred in California and Massachusetts. California cut $22 million — or 35 percent — from its budget for homeless housing assistance. Massachusetts outpaced all other states in dollars cut; it sliced $47 million, half its total budget for homeless housing assistance programs. Both of these are states with above-average unemployment rates. While the national unemployment rate for the first 11 months of 1991 averaged 6.7 percent, it averaged 7.6 percent in California and 9.1 percent in Massachusetts. In addition, both states also made large cuts in general assistance or AFDC. As a result, these are two of the states in which the number of people who are homeless or at risk of homelessness is likely to have increased most.

Four other jurisdictions — Connecticut, the District of Columbia, Florida, and Iowa — also made substantial cuts in emergency housing assistance programs. Connecticut reduced its homeless assistance housing budget 18 percent, a drop of $4 million. In the District, these programs were cut 43 percent, a reduction of $12 million. Florida cut its program 55 percent, or $2.4 million. Iowa reduced its programs 32 percent, although this involved a cutback of just $600,000.

- Overall, ten of the 29 states that appropriate money for emergency housing programs for the homeless reduced their programs. The other states instituting cuts, in addition to those identified above, are Maine, Michigan,[60] Ohio,[61] and Rhode Island. (See Table V.)

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[58] Various states also provide funds for programs that provide health care or supportive services to homeless people. Those programs are outside the scope of this study.

[59] These figures include appropriations for special needs and emergency assistance programs that are designed to help avert homelessness. These programs are also examined in the income assistance chapter of this report.

- Eight of the nine states cut funding for these programs more than 12 percent. Five states instituted cuts exceeding 20 percent. Four states cut by more than 30 percent.

In contrast to these nine states, ten states *increased* appropriations for emergency housing programs serving the homeless. The lion's share of these increases occurred in two states. New York enacted the largest dollar expansion, appropriating an additional $23 million in fiscal year 1992. New Jersey provided $15 million in new funds, a 23 percent increase. Some of these dollar expansions reflect an increase in the number of special needs and emergency assistance recipients who automatically qualify for aid, rather than specific legislative decisions to enlarge the programs.

In three states — Hawaii, Minnesota, and Oregon — homeless housing budgets increased at least 50 percent; the amounts involved were between $1 million and $6 million in each of these states. Budget analysts in Oregon expect this increase to be rolled back in the next biennium, however, as spending cuts are made in response to a recently passed ballot initiative reducing property taxes.[62] The other states increasing their programs were Alaska, Delaware, New Hampshire, Pennsylvania, and Virginia, with the increases in these states tending to be quite small. The aggregate increase in these five states totaled less than $1.5 million.

Finally, 10 states maintained appropriations at fiscal year 1991 levels.[63] In these states, the programs generally will meet a smaller proportion of the need in fiscal year 1992 than in fiscal year 1991 because of likely increases in the homeless population. This is particularly true in states that have instituted major reductions in general assistance such as Illinois and Maryland.

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[60] In Michigan, the homeless housing budget was cut from $18.6 million to $16 million. These figures were supplied by the state, and include some federal matching funds. The state could not break out the federal portion, but indicated it is substantially less than half of the total. Moreover, the cut reflects changes in state policy, not federal policy.

[61] In addition to the budget reduction between fiscal year 1991 and 1992, Ohio's Governor cut $347,000 in February 1991 from the approved fiscal year 1991 budget for homeless housing assistance.

[62] In Oregon, major reductions are anticipated in the fiscal year 1993-1994 biennium due to a recently passed ballot resolution rolling back property taxes. Unless new tax revenues are found, homeless assistance programs will be forced to compete with education and other pressing needs for a shrinking supply of state dollars.

[63] These states are Arizona, Florida, Illinois, Maryland, Oklahoma, Utah, Vermont, Washington, West Virginia, and Wisconsin.

Table V
Changes in State Funding for Emergency Housing Programs for the Homeless, FY 1991 and FY 1992

(in millions of dollars)

Region/State	FY 1991	FY 1992	$ Change	%Change
NEW ENGLAND				
Connecticut	$23.3	$19.1	-$4.2	-18.2%
Maine	0.75	0.74	-0.01	-1.1
Massachusetts	95.6	49.0	-46.6	-48.7
New Hampshire	1.77	2.45	0.68	38.4
Rhode Island	1.7	1.5	-0.2	-11.8
Vermont	0.2	0.2	0	0
MID-ATLANTIC				
Delaware	0.74	0.82	0.08	10.8
DC	28.9	16.6	-12.3	-42.6
Maryland	4.5	4.5	0	0
New Jersey	67.4	82.8	15.4	22.8
New York	192.6	215.7	23.1	12.0
Pennsylvania	10.3	10.9	0.6	5.8
GREAT LAKES				
Illinois	10.1	10.1	0	0
Michigan	18.6	16.0	-2.6	-14.0
Ohio	4.85	3.75	-1.1	-22.7
Wisconsin	2.76	2.76	0	0
PLAINS				
Iowa	1.9	1.3	-0.6	-31.6
Minnesota*	1.2	2.6	1.4	116.7
SOUTHEAST				
Florida	4.4	2.0	-2.4	-54.5
Virginia*	1.38	1.46	0.08	5.8
W. Virginia	2.0	2.0	0	0
SOUTHWEST				
Arizona	1.9	1.9	0	0
Oklahoma	0.35	0.35	0	0
ROCKY MOUNTAIN				
Utah	0.55	0.55	0	0
FAR WEST				
Alaska	0.350	0.353	0.003	0.9
California	63.0	41.0	-22.0	-34.9
Hawaii	2.1	7.95	5.85	278.6
Oregon*	3.59	5.38	1.79	49.9
Washington*	2.65	2.65	0	0
TOTAL	$549.4	$506.4	-$42.8	-7.8%

* These states have biennial budgets. The numbers listed in the table for fiscal years 1991 and 1992 equal half of the total appropriation for the biennium of which they are a part.

** AFDC special needs programs that target the homeless, as well as AFDC and non-AFDC emergency assistance programs with a significant homeless component, are included in this tabulation.

Source: Survey of states by the Center on Budget and Policy Priorities.

State Budgets for Affordable Housing Programs

Prior to the 1980s, financing for programs to help low income households obtain affordable housing was almost exclusively the province of the federal government. Except for revenue derived from the sale of tax-exempt mortgage revenue bonds,[64] virtually all affordable housing dollars in the public sector came from federal coffers. During the 1980s, the federal government substantially scaled back its commitment to low income housing initiatives. Federal housing appropriations declined nearly 81 percent during this period, after adjusting for inflation.[65] In response to this retrenchment and the growing shortage of low rent housing in the private market, many states assumed a more active role in the affordable housing area.

Currently, 26 states appropriate money during their regular budget cycles to fund housing programs that assist low and moderate income households. These programs are diverse and include efforts to provide rental assistance to low income households, facilitate homeownership, promote new construction or rehabilitation of affordable housing, and avert homelessness.[66]

As an alternative to programs requiring regular appropriations, approximately 16 states have created housing trust funds separate from their budgets. These funds generally have their own source of revenue, dedicated solely to funding housing programs administered by the trust fund. Although the amount of revenue flowing into the fund may fluctuate with the economy, these funds are generally shielded from the political uncertainty associated with state budget cycles. Since trust fund financing is not typically subject to annual budget decisions made by state legislatures, the trust funds are outside the scope of this analysis.[67]

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[64] Some state housing finance agencies secure funds for housing initiatives through the issuance of tax-exempt mortgage revenue bonds. Revenue derived from such bond issuances is not included in the housing budget figures presented in this report. General obligation bond revenue, a principal source of state funding for housing capital budgets, is considered, however.

[65] While federal appropriations fell, federal outlays (or actual expenditures) for low income housing rose. Outlays increased in part because of expenditures made in the 1980s with funds appropriated in the 1970s for multi-year housing commitments — and in part as a result of continued increases in the number of housing units subsidized under a federal housing program. The increase in outlays does not mean, however, that the federal commitment to low income housing expanded in the 1980s.

The best measure of the federal commitment is the number of additional low income households assisted through federal housing programs each year. Since the number of privately-owned low-rent housing units has been declining for 20 years — while the number of poor households has increased — the federal government must provide rental subsidies for an increased number of housing units each year just to keep the shortage of affordable housing from growing worse.

In fiscal years 1977 to 1980, HUD provided subsidies for an average of 290,000 additional units each year. But from fiscal year 1981 to 1991, the average number of additional units subsidized each year was only 78,000. The declining federal effort in the 1980s contributed to the low income housing squeeze.

[66] State housing programs generally do not concentrate their resources on very poor households. Poor households may be eligible for such programs, but most states have chosen to invest their housing assistance dollars in programs primarily serving near-poor and moderate income people — those with incomes between 50 percent and 100 percent of the median income in the state or local area.

State affordable housing programs fared poorly this year. Some $246 million was cut from state housing budgets for fiscal year 1992. This represents a reduction of one fifth — 22 percent — in state appropriations for these programs.

- Ten of the 26 states that appropriate funds for housing reduced their appropriations between fiscal year 1991 and 1992. These states are California, Connecticut, Delaware, Florida, Georgia, Hawaii, Iowa, Massachusetts, New York, and North Carolina. (See Table VI.)
- Six of these states cut their housing appropriations more than 30 percent. Eight states trimmed more than 20 percent.
- In addition, Maryland and Ohio both acted in early 1991 to cut funds for low income housing from their enacted fiscal year 1991 budgets. Both states cut their fiscal year 1991 housing appropriations by 17 percent.
- Maine[68] and Vermont,[69] states that finance affordable housing

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[67] Vermont and Maine are exceptions to this rule. Although these states use dedicated revenue sources to finance housing activity, both states claimed portions of the dedicated revenue for their general fund in fiscal year 1992.

[68] In past years, the Maine Housing Finance Agency received 45 percent of all real estate transfer tax revenue collected by the counties. In fiscal year 1991, this amounted to $3 million. This year, however, the legislature revised the amount dedicated to MHFA. Beginning in fiscal year 1992, total transfer tax revenue must exceed $6 million before the MHFA will receive any money. The MHFA receives 45 percent of transfer tax revenue above $6 million.

For fiscal year 1992, transfer tax revenue is projected to be approximately $6.7 million. Under the old formula, the MHFA could expect to receive 45 percent of this total, or $3 million. Under the new guidelines, the housing finance agency receives only $300,000. The balance of the transfer tax revenue reverts to the state general fund and local government treasuries.

[69] In the past, a formula was used to determine the share of real estate transfer tax revenue that would go to the Vermont Housing and Conservation Trust Fund. If the formula had been used to set the fiscal year 1992 allocation, the trust fund would have received $2.1 million. For fiscal year 1992, however, the legislature suspended the formula-based approach and appropriated $1.45 million to the fund.

Vermont also finances its housing capital budget with general obligation bond revenue. In fiscal year 1992, some $5 million in general obligation bond revenue was allocated to low income housing projects, down $2.25 million from the fiscal year 1991 amount.

Table VI
Changes in State Funding for Affordable Housing Programs, FY 1991 and FY 1992

Region/State	FY 1991	FY 1992	$ Change	% Change
	in millions of dollars			
NEW ENGLAND				
Connecticut	$135.9	93.3	-$42.6	-31.3%
Maine	3.0	0.3	-2.7	-90.0
Massachusetts	342.4	208.4	-134.0	-39.1
Vermont	9.2	6.45	-2.75	-29.9
MID-ATLANTIC				
Delaware	6.0	0.5	-5.5	-91.7
DC	35.7	36.2	0.5	1.4
Maryland	39.1	47.6	8.5	21.7
New Jersey	7.7	7.7	0	0
New York	177.3	175.0	-2.3	-1.3
Pennsylvania	20.0	20.0	0	0
GREAT LAKES				
Indiana*	0.25	0.25	0	0
Ohio	3.1	3.15	0.05	1.6
Wisconsin*	3.65	3.9	0.25	6.8
PLAINS				
Iowa	2.8	2.7	-0.1	-3.6
Minnesota*	9.5	14.15	4.65	48.9
SOUTHEAST				
Florida	11.5	9.0	-2.5	-21.7
Georgia	5.0	3.4	-1.6	-32.0
North Carolina	1.0	0.0	-1.0	-100.0
Virginia*	3.6	3.6	0	0
SOUTHWEST				
New Mexico	0.8	1.3	0.5	62.5
Texas*	0.0	9.0	9.0	na
ROCKY MOUNTAIN				
Colorado	0.6	0.6	0	0
Utah	0.5	0.56	0.06	12.0
FAR WEST				
Alaska	4.1	7.7	3.6	87.8
California	276.5	200.7	-75.8	-27.4
Hawaii	8.3	2.6	-5.7	-68.7
Oregon**	0.0	3.0	3.0	na
Washington*	21.4	21.4	0	0
TOTAL	$1,128.9	$882.5	-$246.4	-21.8%

* These states have biennial budgets. The numbers listed in the table for fiscal years 1991 and 1992 equal half of the total appropriation for the biennium of which they are a part.

** Spending out of Oregon's new housing fund is limited to $6 million in the 1992-1993 biennium; half of these expenditures are assumed to occur in fiscal year 1992.

Source: Survey by the Center on Budget and Policy Priorities programs with dedicated revenues, also cut their housing budgets sharply.

The magnitude of the cuts varied, with Delaware and Maine enacting the largest percentage reductions.[70] The Delaware legislature had appropriated $6 million in both fiscal year 1990 and 1991 but committed only $500,000 in fiscal year 1992. Maine sliced 90 percent from its fiscal year 1992 housing budget. Connecticut, Georgia, Hawaii, and Massachusetts each pared their housing budgets more than 30 percent.

In absolute dollars, the largest reductions occurred in California, Connecticut and Massachusetts. California reduced appropriations for housing programs $76 million, while Connecticut cut $43 million. Here, too, Massachusetts outstripped all other states, slashing $134 million from its fiscal year 1992 housing budget.

Housing budgets were most likely to be cut in areas hit hard by the recession, such as California, New England and the Mid-Atlantic states. Every New England state that funds affordable housing programs reduced its housing budget in fiscal year 1992.

At the same time, 10 states increased their housing budgets. These increases tended to be small, however, with five of these states providing an increase of $1 million or less, often too little to keep pace with inflation. The most significant increases came in Oregon and Texas. In Oregon a new housing fund received $20 million in general appropriations and $5 million in lottery funds for the 1992-1993 biennium.[71] The Texas legislature appropriated $9 million, marking the first time the state allocated funds for low income housing programs.[72]

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[70] North Carolina reduced its housing appropriation 100 percent in fiscal year 1992, but its 1991 appropriation can be construed as a one-time or special budget item.

[71] Some $5 million of this revenue goes to homeless programs. Only $6 million of the remaining $20 million can be spent in the 1992-1993 biennium on affordable housing. The interest on the remaining balance will pay for housing expenditures in future years.

[72] The Texas legislature appropriated $18 million for the 1992-93 biennium to satisfy the state's matching requirement under the Cranston-Gonzalez National Affordable Housing Act. To leverage additional dollars, the National Affordable Housing Act requires states receiving funds through the HOME program to provide matching grants, with the non-federal match determined by the types of housing projects involved. If HOME funds are used for tenant-based rental assistance, one dollar in state funds must match each four dollars in federal funds. If HOME funds are used for new construction, one state or local dollar must match each two federal dollars. The U.S. Congress recently waived the matching requirements for fiscal year 1992.

Six states maintained housing appropriations for fiscal year 1992 at the same levels as in fiscal year 1991.[73]

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[73] These states are Colorado, Indiana, New Jersey, Pennsylvania, Virginia, and Washington. Although the Virginia budget was not cut between fiscal year 1991 and fiscal year 1992, the state reduced its housing appropriation substantially between the 1988-1990 and 1990-1992 biennia. Some $49 million was appropriated in fiscal year 1988-1990 to capitalize the Virginia Housing Partnership Fund. In 1990-1992, only $7.2 million in general funds was appropriated for low income housing programs. An additional $40 million, originally planned as a general fund appropriation, was borrowed instead from the state housing finance agency.

This funding revision is significant because it prevents the Housing Partnership Fund from operating as a revolving loan fund through the 1990s. Under the present financing scheme, the loan repayment streams will be used to service the state's debt to the HFA, rather than to extend new loans. Thus, the cut has more impact on the long-term operation of the fund than on the amount of new money available for loans in the current biennium.

V. Tax Policy

Although the impact of state and local taxes on the poor is often ignored, these taxes impose a heavy burden on those at the bottom of the income scale. For example, the sales tax is the largest generator of state tax revenue, and the property tax accounts for nearly three-quarters of local taxes. Both take a larger share of income from low-income households than from people at higher income levels. In other words, they are regressive. Many other taxes, such as those on gasoline, utilities, and cigarettes, are also regressive.

To offset taxes that disproportionately hit the poor, most states have at their disposal one major tax that is progressive, the personal income tax. States can also choose to offset the effect of regressive taxes through various low-income tax relief approaches. But since the personal income tax usually accounts for considerably less than half of a state's tax revenue (and less than a third of combined state and local taxes) — and since low-income tax relief provisions tend to be small — nearly all states have regressive tax systems.

Most states relied primarily on regressive taxes to raise revenue this year. Only two states — Connecticut and Rhode Island — raised taxes in a progressive manner. A few other states combined regressive and progressive taxes. Although these states did not entirely shield the poor from higher taxes, their tax increases were more equitable than they would have been if they had relied solely on regressive taxes. The majority of new state revenues, however, was raised in a clearly regressive manner.

Most states have recognized the impact of taxes on the poor by establishing programs to partially shield poor people from taxation. This year, six states either adopted new tax credits targeted on low-income households or expanded existing low-income credits. These states included the new or expanded credits in larger packages of general tax increases. The result was to shield poor people from the full impact of the tax increases. Three states, however, took action in 1991 to reduce or suspend low-income tax relief programs. These groups of states do overlap; two states that expanded some tax relief provisions cut other provisions.

An important part of state and local tax systems — local taxation — is not covered in this chapter, although it will be affected by decisions states made this year. Many states cut aid to local governments sharply. These cutbacks will result in significant increases in local taxes, which are overwhelmingly regressive. Local revenue accounts for about 40 percent of the combined tax collections of state and local governments.

Thus, the poor are affected by taxes in two ways — through general tax policies that affect all taxpayers and may be either regressive or progressive, and through tax provisions targeted specifically at low-income households.

General Tax Policy

When confronted by the need to raise taxes, states have a range of choices:

- A progressive tax increase, with the poor completely exempted;
- A progressive tax increase, with the poor bearing some burden but proportionately less than people with higher incomes;
- A combination of progressive and regressive taxes, with varying emphases on them; or
- A regressive tax increase.

For fiscal 1992, most states relied primarily on regressive taxes to raise revenue. The major exception was Connecticut, which reduced the tax burden imposed on the poor by enacting a personal income tax that exempted low-income families and cutting the regressive sales tax by two percentage points. (Connecticut imposes no income tax unless a family's income exceeds $24,000 or a single person's income is above $12,000.)

Not including Connecticut's $1.1 billion tax increase, net state tax increases approved this year totaled $13.4 billion. Of this amount, states raised $7.5 billion from clearly regressive taxes: $5.3 billion from the general sales tax; $0.7 billion from motor fuel and motor vehicle excise taxes; $0.2 billion from taxes on tobacco

Who Pays State and Local Taxes

There are three major types of state taxes — on *consumption*, on *personal income*, and on *corporate income.* Local governments use these taxes to a much smaller extent, since they derive most of their revenue from taxes on *property.*

Consumption taxes

Taxes on consumption are usually regressive because the percentage of income that households spend on consumption goods falls as income rises. At high income levels, families tend to save rather than spend a significant proportion of their income. By contrast, a poor family cannot afford to save much, if anything, because it must use its income for necessities. Families in between save varying amounts — on the average, more than the poor and less than the rich. Approximately half of state tax revenue is from taxes on consumption — either the general sales tax or selective sales taxes on products like gasoline, utilities, insurance, cigarettes, and alcoholic beverages.

Personal income tax

This is the only major state tax that is clearly progressive — taking a larger proportion of income from the affluent than from the poor. Its progressivity comes from two sources. First, most states have tax rates that increase as taxable income rises. In addition, personal exemptions, standard deductions, and low-income credits can fully exempt some or all taxpayers with low incomes.

Corporate income tax

The burden of this tax is controversial. Many economists believe its burden is different at the state level than at the national level. A national tax on corporate income is borne primarily by the owners of corporations; since they are relatively wealthy, the tax is progressive. At the state level, however, corporate income is usually apportioned among states according to how much sales, payroll and property the corporation has in each state. According to one widely accepted analysis,* this means that the tax is equivalent to a tax on sales, payroll and property; thus, it is largely borne by customers in the form of higher prices, by workers through lower wages, and by property owners. Since most of the tax is on sales and wages, it is regressive, according to this analysis. Others, however, view the state corporate income tax as progressive.

Property tax

The distribution of property tax burdens is complicated. The property tax has several distinct parts; it includes a tax on homes, as well as a tax on rental property, business property, and farms. The taxes on homes and rental property are regressive because the ratio of home value to income and also of rental payments to income tends to decline as income rises. In many situations, renters bear the burden of the property tax through their rental payments. To the extent that business property taxes are passed on to customers, they also are regressive, like any other consumption tax. Paradoxically, the property tax may have a progressive component as well as a regressive component. Because much of the business property tax is probably borne by owners of property, it is viewed as progressive at high income levels. So the property tax is likely to have a U-shaped pattern of burdens, regressive at low income levels and progressive for the affluent.

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*Charles McLure, "The State Corporation Income Tax: Lambs in Wolves' Clothing," in Henry Aaron and Michael Boskin, eds., *The Economics of Taxation* (Washington, DC: Brookings Institution, 1980), pp. 327-346.

products; another $0.2 billion from alcoholic beverage taxes; and $1.1 billion from miscellaneous excise taxes. Increases in the personal income tax amounted to $4.1 billion, while corporate income tax increases totaled $1.7 billion.[74]

Of these tax sources, only the personal income tax is definitely progressive, and it accounted for 31 percent of the $13.4 billion increase in revenues in states other than Connecticut. (The question of who bears the burden of corporate income tax levied at the state level is controversial. Some economists view corporate income taxes as regressive when levied at the state level, as distinguished from the federal level. Others consider this tax to be progressive. See the box on the previous page.)

An important new trend in state tax policy this year was to combine a small progressive income tax increase with a larger sales tax increase. Three states — California, Minnesota, and North Carolina — raised income taxes only on the affluent while boosting the sales tax rate. Two other states — Maine and Vermont — raised income taxes in a progressive way while also boosting the sales tax. The net result in these states is a tax increase that has a U-shaped pattern of burdens — large at low income levels because of the regressive sales tax and also large at high incomes because of the income tax increase, but smaller at middle-income levels. (A significant consideration in state decisions to increase taxes on their affluent citizens is that taxpayers can deduct their state personal income taxes in calculating the *federal* income taxes they owe.)

The distributional burden of this year's tax increases in the 14 states that raised taxes the most is discussed in the box "Analysis of Largest Tax Increases in 1991" (also see Table VII). To summarize, only Connecticut and Rhode Island clearly raised taxes in a progressive manner. Three states — Nevada, New Hampshire and Texas, none of which has a personal income tax — relied almost entirely on regressive taxes. Arkansas, Minnesota, and Vermont, which relied most heavily on the sales tax, took special care to provide additional relief to the poor at the same time they were raising regressive taxes. The other states generally combined regressive and progressive tax increases. Although most of these states relied primarily on regressive taxes, in many cases the tax increase package was progressive at high income levels.

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[74] These figures are based on the data from the National Conference of State Legislatures, as adjusted to reflect certain differences in how tax increases are defined. For example, maintaining a temporary tax increase is not counted here as a tax increase, nor are special taxes to fund Medicaid included. State tax increases are discussed in a forthcoming article by Steven Gold in *State Tax Notes*, "How Much Did States Really Raise Taxes in 1991?", December 29, 1991.

Analysis of Largest Tax Increases in 1991

Arkansas:	Raised primarily regressive taxes, but partially offset the burden on poor households by reducing their income tax liability.
California:	Regressive at low incomes and progressive at high incomes. The regressive sales tax accounted for 60 percent of the tax increase, while the progressive personal income tax accounted for 34 percent of the tax increase. For joint returns, the income tax was increased only on those with income above $200,000.
Connecticut:	Progressive, since the state's new income tax exempts families with income under $24,000, while the sales tax rate was reduced from 8 percent to 6 percent.
Delaware:	Indefinite, since most of revenue was derived from corporate franchise tax.
Maine:	Somewhat regressive overall, but progressive at high income levels. A progressive personal income tax increase accounted for just 31 percent of the total tax increase. Sales tax and other regressive taxes provided the majority of the new revenue.
Minnesota:	Complicated. Personal income tax accounted for only 29 percent of the tax increase. The regressivity of increased sales and other consumption taxes at low income levels was offset for working poor families with children by the new earned income tax credit. Progressive at high income levels, since the income tax rate increased above $182,000 (for joint returns).
Nevada:	Regressive. Relied primarily on sales tax.
New Hampshire:	Regressive. Without a personal income tax, all major tax options are regressive.
New York:	Regressive at low incomes, with a small income tax increase on incomes above $100,000. (This provided less than 13 percent of the new revenue.)
North Carolina:	Regressive at low income levels and progressive at high income levels. A personal income tax increase for joint returns with income over $100,000 accounted for only eight percent of the tax increase, while corporate income tax accounted for 14 percent. The remainder was made up primarily of regressive taxes, especially the sales tax, which accounted for 71 percent of the tax increase.
Pennsylvania:	Mixed. Its personal income tax, the burden of which is proportional to income (except for a low-income forgiveness provision), accounted for 43 percent of the tax increase. Business taxes on corporate income and capital stock accounted for 29 percent. The remainder consisted of regressive consumption taxes.
Rhode Island:	Progressive. Personal income tax accounted for about 80 percent of the tax increase.
Texas:	Regressive, since excise and sales taxes accounted for most of the revenue increase. Like New Hampshire, Texas does not have an income tax.
Vermont:	Complicated, but definitely progressive at high income levels. A progressive personal income tax increase accounted for less than half of the total tax increase. Increases in the sales tax credit and the earned income credit provided progressive elements at low income levels.

Table VII
Composition of Tax Increases in States
with Largest Increases

		Regressive			Progressive
State	Total	Sales	Other Consumption	Corporate Income*	Personal Income
		(millions of dollars)			
Arkansas	$245	$159	$90	$13	-$17
California	6,393	3,867	320	11	2,195
Connecticut	1,067	-374	67	15	1,359
Delaware	76	0	18	57	2
Maine	180	86	11	27	56
Minnesota	288	191	21	2	83
Nevada	92	77	15	0	0
New Hampshire	39	0	44	-5	0
New York	800	21	645	34	100
North Carolina	606	430	40	85	51
Pennsylvania	3,167	389	511	908	1,359
Rhode Island	127	0	20	5	101
Texas	852	0	580	272	0
Vermont	90	30	17	2	42

Note: Estimates from NCSL, *State Budget and Tax Actions in 1991*, with modifications, such as excluding special Medicaid taxes, extensions of temporary taxes due to expire, and suspension of previously scheduled tax reductions. In Minnesota, the components do not equal the total because of the working family tax credit (essentially a state earned income credit), which reduced revenue $9 million.

* Business franchise taxes are included with corporate income taxes.

In addition to these 14 states, another 20 states raised taxes by smaller amounts. In 14 of these 20 states, the tax increases were regressive. In the other six states, the tax measures had no significant effect on progressivity or regressivity.[75]

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[75] The District of Columbia, Florida, Hawaii, Idaho, Indiana, Iowa, New Mexico, Ohio, Oregon, Tennessee, Utah, Washington, and Wisconsin relied on regressive tax increases. In addition, Maryland derived more revenue from regressive tax increases than from progressive changes. Small tax increases in six states — Alaska, Arizona, Illinois, Nebraska, South Carolina, and Virginia — had a minimal effect at different income levels. They generally involved business taxes or income tax deductions.

Targeted Tax Relief for the Poor

Targeted tax relief for the poor is growing in popularity among the states. Since 1987, a dozen states have followed the example of the federal government, which eliminated income tax liability for all poor families as part of the Tax Reform Act of 1986.[76] Most other states have moved in that direction by reducing income tax burdens on the poor.

Many states also provide tax relief through targeted low-income tax credits, such as a property tax credit (usually referred to as a circuitbreaker), a sales tax credit, or an income tax credit. While helpful, however, these low-income relief programs are generally much too small to eliminate the regressivity of a state's overall tax system.

In actions taken in 1991, six states provided new or expanded tax relief for poor families, while three states reduced tax relief programs. There is some overlap between these two groups of states; both Oregon and Vermont reduced one low-income relief program while expanding another. In Oregon, the program that was repealed was much more significant, however, than the one that was expanded. (For a description of potential tax relief mechanisms, see the box on the following page.)

Each of the six states that increased tax relief did so in a different way.

- *Arkansas* eliminated the state income tax for many poor households (annual benefit: $14.2 million).
- *Georgia* provided a new sales tax credit targeted at low-income households (annual benefit: $30 million).
- *Minnesota* enacted a working family tax credit piggybacked on the federal earned income credit (annual benefit: $9.4 million).
- *Oregon* substantially liberalized a small tax relief program for senior citizen low-income renters.
- *Pennsylvania* made its income tax forgiveness provisions for low-income households more generous, thereby removing more working poor families from the income tax rolls.

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[76] Four states exempted the poor from the income tax before 1987.

Low-Income Tax Relief Mechanisms Discussed in this Report

Earned income tax credit (EIC)

A credit for low-income working families with children. Six states have these credits, which are supplements to the federal earned income credit. For example, in Vermont, the state credit is 28 percent of the federal credit. In 1991, the federal earned income credit equals approximately 17 percent of the first $7,140 in earnings, providing a maximum benefit of about $1,200. It begins to phase out for those with incomes over $11,250, falling to zero when income reaches $21,250. (All of these income levels are adjusted annually for inflation; further increases in the EIC, in addition to the annual inflation adjustments, are being phased in through 1994). In three states, the credit is refundable, as the federal credit is. That means that if a family's income tax liability is zero, the family receives a check in the amount of the credit. In the other three states, the credit is nonrefundable.

Circuitbreaker

A credit that depends on a household's residential property tax payments and its income. The greater a family's property tax and the lower its income, the higher the benefit. A circuitbreaker may be a refundable income tax credit or may be administered separately from the income tax system. In most states, renters are eligible, and a percentage of rent is treated as a property tax payment. Approximately 31 states have these programs, but the majority are restricted to senior citizens and people with disabilities; only 13 states cover those who are not elderly or disabled.

Sales tax credit

A refundable credit that is designed to offset the regressivity of the sales tax. Although usually administered as part of the personal income tax, in South Dakota and Wyoming it is provided through a separate application process. (These states do not have income taxes.) Nine states now have such credits.

- *Vermont* enhanced its sales tax credit (annual benefit: $1.4 million).

In *Arkansas*, the state raised the income level below which taxpayers need not file an income tax return, placing it at the same level used to determine who must file a federal tax return. This eliminated state income taxes for many poor households, although it did not help all poor people because the federal threshold is considerably lower than the poverty line.[77]

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[77] There are two federal income tax thresholds. One establishes the income level below which households need not *file* an income tax return. The other, which is higher, is the level below which households *owe* no federal income tax. Arkansas effectively eliminated state income tax on households with income below the federal *filing* threshold. Those whose incomes are above this level, but who

(continued...)

Georgia instituted a sales tax credit to help offset the sales tax paid by poor households. The credit is subtracted from income tax liability, unless it exceeds the income tax due. In that case, taxpayers receive a refund check from the state.[78] The size of the credit a household receives is based on its income and the number of people it contains. Households with incomes below $6,000 receive a credit of $26 for each person in the household, while those with incomes between $15,000 and $20,000 receive $5 for each household member. Benefits are double for senior citizens. The ability of many low-income households to use this new credit is limited by one of its provisions: any household that received food stamps for at least one month during the year is ineligible for the credit.[79]

Vermont, which has had a sales tax credit for many years, increased it considerably to reflect inflation and to offset an increase in its sales tax rate. Vermont raised the income limit for the credit from $13,500 to $25,000 and also substantially

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[77] (...continued)

still fall below the poverty line, will generally still owe Arkansas income tax although they do not owe federal income tax.

[78] This credit was established when Georgia decided not to implement a scheduled partial exemption of food purchases from the sales tax. The exemption would have reduced the regressivity of the sales tax but cost the state much more revenue than the credit; it would have provided a majority of its benefits to families with incomes above the poverty line.

[79] The provision precluding households that received food stamps from receiving the credit was apparently based on a belief that food stamp households do not pay sales tax on food, because food purchased with food stamps is exempt from such tax. Such a belief, however, is largely incorrect. Food stamp benefits are designed to cover only a part of the food purchases made by most food stamp households, and in states that charge sales tax on food, all remaining food purchases made by these households are subject to the sales tax.

On average, food stamp households use food stamps for about *half* their food purchases and cash for the other half. Furthermore, this is only in the months they are on food stamps; in other months of the year, they use cash for all their food purchases and thus pay sales tax on all food items. The typical household receiving food stamps during a year is on the program for considerably less than the full year.

Thus, under the Georgia sales tax credit, a household that received food stamps for just one month during the year would be denied the tax credit even though only about 1/24 of the household's food purchases — or four percent — were made with food stamps and were exempt from the sales tax. Even for the minority of food stamp households on the program for all 12 months of the year — a group likely to include many elderly and disabled SSI recipients who typically receive quite small food stamp benefits — a substantial proportion of food purchases are made with cash and are subject to the sales tax.

increased the level of benefits provided. Like Georgia's credit, Vermont's depends on the number of members in a household.[80]

Minnesota's working family credit equals 10 percent of the federal earned income tax credit. This refundable credit has some similarities to sales tax credits like those in Georgia and Vermont, but differs in that it is only for working families with children. It does not benefit poor individuals or families without children or those who do not have earnings. On the other hand, it provides an incentive to work because it operates like a wage supplement.

Oregon liberalized a unique tax relief program for low-income senior citizen renters. It now provides a credit for the difference between the rent a household pays (up to $2,100 per year) and 20 percent of the household's income.[81] The income limit for the program was raised from $5,000 to $10,000, and the 20 percent figure was lowered from 40 percent, thereby enlarging the benefits.

Pennsylvania shields low-income taxpayers from the income tax by forgiving all income tax liability for households with very low incomes. This year it increased the level below which taxes are forgiven from $6,300 to $7,000 for single individuals. For a family of four, it increased the level from $9,800 to $13,000.

In addition, the five states that, before 1991, already had earned income tax credits tied to the federal credit allowed their credits to grow larger.[82] They did this by not changing the percentage of the federal credit that their state credit equals. Since federal legislation enacted in 1990 enlarges the benefits provided under the federal credit, the credit benefits paid in these states will rise as well. For example, Vermont's credit, which provides each eligible family with a state credit equal to 28 percent of the family's federal credit and which is refundable, is now considerably more valuable to the poor than it was previously. The benefits from the Vermont credit are projected to increase from $3 million in 1990 to $4.4 million in 1991 and

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[80] Vermont's credit differs from Georgia's in that it provides considerably more tax relief for the first person in a household than for additional household members. For example, for a household with income of $15,000, the refundable credit is now $44 for one exemption, $52 for two exemptions, $57 for three exemptions, and so forth, up to a maximum of $68 for six or more exemptions. The new $57 benefit for a household with three exemptions is approximately double what it was last year.

[81] For example, if a household paid $150 per month for rent (or $1,800 per year) and had income of $8,000 per year, it would receive a check for $200 (since 20 percent of $8,000 is $1,600, and this is $200 less than its $1,800 rental payment).

[82] Minnesota, Vermont, and Wisconsin have refundable state EICs. Iowa, Maryland, and Rhode Island have nonrefundable credits.

$7.5 million in 1994. The large expansion of the federal credit enacted in 1990 is being phased in through 1994.

Several other states made relatively small changes in existing tax relief programs for low-income households. Arkansas, Nevada, Utah, and Washington liberalized income eligibility limits for property tax relief programs, although these changes primarily affect people above the poverty line.[83]

Three states reduced programs providing tax relief for the poor. One state action involved outright repeal, while the other two states took temporary actions to reduce the benefits from property tax relief programs for low-income households.

- *Oregon* phased out its property tax circuitbreaker, which provided refundable tax credits to homeowners and renters with income under $17,500. The rationale for repeal is that property tax burdens will be slashed as a result of an initiative approved by voters in November 1990 that phases in a large reduction in the property tax rate in a manner similar to California's Proposition 13. While the tax cut justifies reducing the circuitbreaker, however, it does not eliminate the need for it. The tax rate will be 1.5 percent of a property's market value even after the reduction. Many low-income households may wind up paying more tax than they did before the combination of tax rate reduction and circuitbreaker repeal.
- *Iowa*, which last year made non-senior citizens eligible for its circuitbreaker for the first time, delayed funding that expansion for two years, saving the state $13 million annually.
- *Vermont* made two changes in its circuitbreaker in ways that adversely affected the poor. First, it did not appropriate sufficient revenue to fund its circuitbreaker fully for households headed by a person under age 62. Appropriations are expected to cover about 80 percent of the normal benefits, so they will be pro-rated. (Benefits for senior citizens were fully funded.) Second, it reduced the proportion of rent deemed to

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[83] Nevada raised the income limit for its property tax relief program for elderly low-income homeowners and renters from $15,100 to $19,100. This change does not affect those officially classified as poor, but another change does provide some minor assistance. Circuitbreakers usually help renters by treating a proportion of their rental payments as if they represented property tax payments. Nevada raised the portion of rent considered to represent property tax payments from 6 percent to 8.5 percent. Arkansas raised the income limit on its property tax circuitbreaker for elderly homeowners from $12,000 to $15,000.

represent property tax payments from 24 percent to 20 percent, which will cut benefits for poor renters.[84]

Conclusion

The states' record in apportioning the burdens of the new taxes raised this year is mixed, but somewhat regressive overall. Most states relied heavily on regressive taxes to raise revenue, although many states included progressive elements in their tax increase packages. Of the seven states that significantly increased the sales tax, all but one accompanied this action with either a progressive income tax increase or a tax relief provision targeted at the poor. The large majority of states, however, did not target tax relief on the poor.

Furthermore, the state tax burden on poor households remains very substantial. This burden is inconsistent with the principle enunciated by President Ronald Reagan in 1985 when he transmitted his tax reform proposals to Congress. "The tax system," the President said, "should not be an additional burden to those who are struggling to escape from poverty; insofar as possible, those below the poverty line should be freed from taxation altogether."

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[84] Vermont made two other changes in its circuitbreaker, which (like the change in the treatment of rent) apply for one year only. One of these changes, lowering the program's income limit to $45,000, will not affect poor households. The second change, reducing the maximum benefit to $1,350, will also have little if any effect on the poor.

VI. Different States, Different Decisions

As the preceding chapters make clear, states followed varying courses this year when making budget decisions affecting poor households. Some states sharply scaled back a wide range of programs for the poor, significantly reducing the effectiveness of the safety net. By contrast, other states largely shielded the poor when tackling their fiscal problems.

States That Took the Harshest Actions in 1991

Eight states stand out for the depth and breadth of the cuts they instituted: Michigan, Massachusetts, California, Maryland, Ohio, Illinois, Maine, and the District of Columbia. Of these states, low-income programs were reduced most dramatically in Michigan and Massachusetts.[85]

Michigan enacted cuts directed at the poor that are unparalleled in recent years at either the state or federal level. A wide range of programs were either eliminated altogether or reduced sharply.

- Michigan terminated both general cash and medical assistance for approximately 82,000 general assistance recipients. Reports from the state indicate a growing number of these recipients are becoming homeless.

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[85] A brief description of policy decisions in 10 other states — some of which made significant reductions in low-income programs — is found in the Appendix. The states covered in the Appendix are: Connecticut, Florida, Kansas, Minnesota, New York, North Carolina, Tennessee, Vermont, Washington, and Wisconsin.

- Michigan also cut AFDC benefits by 13 percent during the colder half of the year (and by six percent on a year-round basis) and eliminated all special needs payments for AFDC families, including special needs payments for pregnant women.

- The state slashed SSI state supplements to the elderly poor more than 50 percent, increased copayments for prescription drugs under Medicaid, terminated Medicaid coverage for some home health care services, and cut off state funding for the WIC program.

- Lastly, Michigan cut by one-third its crisis assistance program for AFDC families and other needy individuals even though the cuts it made in other programs are likely to increase homelessness. These crisis assistance payments had helped low-income households to avoid heat, water, and electricity cutoffs, pay rent arrears, and make home repairs.

- All these cuts occurred despite a state unemployment rate averaging nine percent in recent months, making it extremely difficult if not impossible for most victims of these cuts to recoup their lost assistance through increased employment.

Massachusetts, another state whose unemployment rate has averaged about nine percent in recent months, ranks second in the depth and scope of its cuts. The state reduced funding for its general assistance program by $56 million. An estimated 10,000 recipients will lose benefits, with further GA cuts likely in the months ahead. These recipients generally lost medical coverage as well as all cash benefits. In addition, the state eliminated its emergency assistance program for general assistance clients, while sharply scaling back emergency assistance for AFDC families: these actions eliminated $47 million in emergency aid designed to help avert homelessness.

Massachusetts also made the deepest cuts of any state in programs to enable low-income people to find affordable housing. The state slashed low income housing programs $134 million, nearly twice as much in dollar terms as any other state. This represented a 39 percent reduction in the state's low-income housing budget. (It should be noted that Massachusetts still has larger low-income housing programs than any other state. At the same time, its largest urban area — the Boston metropolitan area — has the second highest rents in the nation, according to the U.S. Department of Housing and Urban Development.) Massachusetts did increase WIC funding, but the increase — $3 million — represents a tiny fraction of the amounts cut in other low-income programs.

Six other states also stand out due to the cuts enacted this year:

- *California* cut AFDC benefits 4.4 percent and froze both AFDC benefits and SSI state supplements for five years. Based on the state's inflation forecast, AFDC benefits will be 21 percent lower in purchasing power in January 1996 than they were in January 1991. In addition, the state cut deeply into its AFDC special needs program for homeless families with children, slicing this program 35 percent. Altogether, homeless assistance programs were cut $22 million. On the tax side, some 60 percent of the increase in revenues came from hikes in the regressive sales tax, which disproportionately burdens low income people.

  In early December, the governor proposed still deeper cuts, calling for a November 1992 ballot initiative that, if approved, would result in what would probably be the sharpest AFDC cuts ever initiated in a state. For example, families on AFDC at least six months would have their benefits cut another 25 percent, while benefits for first-time pregnant women would be terminated. Benefits would also be cut for new residents of the state and frozen for women who have an additional child while on AFDC.

  The initiative also repeals a statutory requirement for cost-of-living adjustments (already suspended until 1996) for elderly and disabled SSI recipients as well as for AFDC recipients. After 1996, state SSI supplements would be reduced one dollar for each dollar the federal SSI benefit rose as a result of the federal cost-of-living adjustment. In addition, the proposal would repeal the statutory requirement for California counties to run GA programs providing monthly cash assistance payments.

- *Maryland* cut AFDC benefits seven percent, reduced general assistance benefits 12 percent, and eliminated medical coverage for both inpatient and outpatient hospital services for GA recipients. The state also restricted Medicaid coverage for prescription drugs. Still deeper cuts may be in store. In late November, the governor unveiled proposals for additional deep cuts in general assistance (about half the caseload would be terminated), the elimination of an emergency assistance program, and a major restructuring of AFDC. Some AFDC families would have their benefits reduced up to 30 percent. The state says the AFDC changes are intended to be cost-neutral but has not yet provided details on how the changes would work

- *Ohio* subjected general assistance recipients to deeper cuts than any state except Michigan. The state cut its GA program in half, reducing benefits for most single individuals to $100 a month — or 17 percent of the poverty line — and limiting both cash assistance and medical coverage for most GA recipients to a maximum of six months in a 12-month period. The state also abolished its emergency assistance program for GA recipients and sharply curtailed their hospitalization coverage.

- *Illinois* cut its general assistance program, limiting aid for most recipients to nine months in 1992 and six months starting in 1993. The state also terminated coverage for both inpatient and outpatient hospital services for GA recipients. In addition, the state eliminated a $54 million state-funded energy assistance program to help low income people pay high energy bills, cut AFDC special needs payments, and reduced its emergency assistance program.

- *Maine* reduced AFDC benefits for working families, cut its Medically Needy program, trimmed its GA program, and reduced funding for low-income housing 90 percent. In addition, in recent weeks, the governor has proposed terminating the general assistance program and further reducing AFDC benefits for working families. On the other hand the state legislature may soon complete action on a new AFDC special needs allowance for families with extremely high housing costs .

- The *District of Columbia* canceled a scheduled cost-of-living adjustment in AFDC benefits and reduced both AFDC and GA benefits by 4.4 percent. The District also eliminated several recipient categories from its general assistance program, and cut emergency housing assistance for the homeless by 43 percent.

Except for California, the states cutting low-income programs most harshly were all New England, Mid-Atlantic, or Midwest states. By and large, the states facing the largest budget deficits were located in these regions. Nevertheless, various other states in these regions also faced severe fiscal constraints but did not cut programs for the poor as deeply. Moreover, in several states that made especially large cuts, the budget deficit, measured as a percentage of total state spending, was smaller than in some other states that followed a less severe course.

Another feature common to the states that made the deepest cuts is that they tend to be states with stronger-than-average safety nets, including above-average AFDC payment levels and broader-than-average general assistance programs. (They also tend to be states with above-average living costs, especially for housing.) If a state has no GA program, lacks an emergency assistance program, pays no SSI supplement, and lacks any low-income housing program, there is less of a safety net for the state to cut. Nevertheless, some other states with stronger-than-average safety nets chose not to make cuts of this depth.

States that Shielded the Poor

Some states shielded the poor from the effects of deficit-reduction by protecting low-income programs from deep cuts. In addition, while the majority of states raised taxes in a regressive manner, hitting low and middle income people harder than the well-to-do, there were exceptions to this pattern. Connecticut and Rhode Island relied largely upon progressive tax-raising measures, while five states that raised regressive taxes also expanded tax relief programs for the poor, thereby softening the effect on those least able to pay more in taxes. Indeed, a wide range of low-income tax offsets, increasingly in the form of refundable tax credits, are now being used by states.

Pennsylvania, Texas and Vermont are examples of states that managed to close substantial fiscal year 1992 deficits while largely protecting their low-income residents.

- In April 1991, *Pennsylvania* faced a projected deficit for the coming fiscal year equal to 19 percent of the state budget.[86] It managed to close this deficit without cutting the low-income programs examined in this study. In addition, nearly three-fourths of the revenue increases the state approved came from the personal income tax or business taxes — and while some regressive taxes were also raised, the state accompanied these increases with a low-income relief measure. That measure removed a substantial number of working poor families from the state income tax rolls. Finally, Pennsylvania increased WIC funding by $2 million.

- As of April, *Texas* confronted a projected deficit equaling 13 percent of its budget for fiscal 1992. Although it cut its WIC appropriation, Texas enlarged its Medicaid program by raising the income eligibility limit for pregnant women and infants to 185 percent of the poverty line and expanding coverage for prenatal services. It also provided funding of $9 million for a new low-income housing program. Other low-income programs largely escaped unscathed, although it bears mentioning that Texas has one of the most parsimonious safety nets in the nation, with no general assistance program or SSI supplements. In addition, Texas lacks an income tax, and the tax increases it enacted were regressive.

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[86] The April 1991 data cited here on projected state deficits as a percentage of state budgets are largely based on a National Conference of State Legislatures survey.

- *Vermont* faced a projected 1992 budget deficit of 18 percent. Like other New England states, it cut low-income programs, but the magnitude of the cuts was significantly smaller than in other states in the region such as Massachusetts and Maine. Vermont also accompanied an increase in the regressive sales tax with an enlargement of its low-income sales tax credit and allowed its earned income tax to increase in value.

These examples illustrate that states can reduce large deficits while largely insulating the poor from substantial cuts that would deepen their poverty.

VII. Summing Up: What Happened in 1991 and What Lies Ahead for 1992

State safety net programs took a beating in 1991. The already weakened AFDC program was cut more heavily than in any other year in at least a decade. More than one in every three state general assistance recipients had their benefits reduced or eliminated or will be subject to benefit cut-offs in coming months. Furthermore, many of those losing their AFDC or general cash assistance lost medical coverage as well. Programs targeting the homeless through emergency cash assistance or emergency housing aid also were pared back substantially in many areas.

Cuts Tended To Hit the Very Poor

Many of the state program cuts examined here squarely hit the poorest of the poor. The large federal budget cuts in low-income programs enacted in 1981 primarily affected poor and near-poor families with some income besides their government assistance; the working poor were the principal target of these reductions. By contrast, the cuts passed by states this year predominantly affect those with little or no income other than their government support. It is likely the state cuts enacted in low-income programs this year will hit the very poor more sharply than any round of either state or federal cuts in recent memory, including the 1981 federal budget reductions.

The new state budget cuts in low-income programs are especially biting because of the recession. With unemployment rates remaining high, low-income people whose benefits are terminated or reduced have limited opportunities to make up for this income loss by increasing their earnings. Michigan provides a particularly vivid example. More than 80,000 individuals, many of whom would have trouble finding employment in a booming economy, were dropped from general assistance rolls and told to find employment despite a state unemployment rate of about nine percent.

The large cuts made in state programs to prevent homelessness or to assist those already homeless warrant particular attention. Coming at a time when the economy is placing hundreds of thousands of people at increased risk of homelessness, these cutbacks diminish the nation's ability to respond to this problem. (See the box entitled "Combination of Cuts and Recession Likely to Exacerbate Homelessness.")

Did Poor Households Bear a Disproportionate Share of the Deficit Reduction Burden?

Data are not available to conduct a detailed analysis across all states of how deficit reduction burdens were distributed among various income groups. It appears evident, however, that the poor shouldered a larger share of deficit reduction than other groups in some identifiable respects. The majority of states increased regressive taxes in 1991; these taxes take a larger share of income from the poor than from those in other income strata. Moreover, in states where general assistance and AFDC benefits were cut significantly, recipients of these programs are almost certain to have lost a larger share of their income than other groups. (The one exception to this rule would be state employees who lost their jobs.)

Some data on the distribution of deficit reduction burdens are available for one state, California. In the nation's largest state, AFDC families contributed a much larger share of their income to deficit reduction than any group of non-poor households.

- The incomes of most AFDC families in California will fall 6.7 percent in purchasing power in the 1991-1992 fiscal year, when both benefit cuts and tax increases are taken into account.

- By contrast, the wealthiest one percent of Californians are contributing an average of 1.6 percent of their income to deficit reduction.[87]

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[87] The Center on Budget and Policy Priorities' calculations are based on data from the Legislative Analyst's Office of California and the Citizens for Tax Justice. The calculations include adjustments in food stamp benefits.

Combination of Budget Cuts and Recession Likely to Exacerbate Homelessness

The findings both of a forthcoming book on the rise of homelessness in the 1980's and of a recent survey of the nation's major cities suggest that the state cuts made this year in programs for the poor may, along with the economic downturn, lead to further increases in homelessness.

The book, by one of the nation's foremost experts on the homeless, Martha Burt of the Urban Institute, examines different explanations of why homelessness has grown.* Burt finds that several traditional explanations for the increase in homelessness have been overstated. These include explanations that focus on deficiencies in the behavior of the homeless. Her research indicates that changes in the economy — the loss of jobs, lower wages, and the shortfall of low-rent housing in the private market — were more important. She also finds that cutbacks in programs that help prevent the very poor from falling "over the edge" contributed significantly to the rise in homelessness. In particular, she found that general assistance payments can be crucial to preventing homelessness and that cities where there is no GA program or a very limited program tend to have more homelessness than cities where GA is more adequate.

These findings are especially significant in light of the events of 1991, when the number of jobless shot up and some states made unusually deep cuts in programs for the very poor. Two million more workers were unemployed in November 1991 than in July 1990 when the recession began. And, as reported here, state cuts in general assistance, AFDC, SSI supplements, and emergency assistance programs — including emergency programs designed specifically to aid the homeless or keep indigent people from falling into homelessness — were particularly severe in some areas. The overall size of the cuts states made in these programs were the largest in at least a decade.

Burt's findings about the growth of homelessness in the 1980s suggest that the combination of economic factors and cuts in programs for the poor is likely to lead to a further substantial rise in the homeless population.

These findings are buttressed by a survey of 28 major cities conducted this fall by the U.S. Conference of Mayors. Nearly two-thirds — 63 percent — of the cities reported that state budget cuts had caused an increase in homelessness in 1991. Sixty percent of the cities also reported that the state cuts reduced the ability of local agencies to provide services to homeless persons. Cities in every state that instituted large cuts in General Assistance, as well as some in states instituting smaller GA cuts, specifically identified these cuts as important factors contributing to increases in the number of homeless people.**

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*The forthcoming book is *Over the Edge: The Growth of Homelessness in the 1980s*, by Martha R. Burt, Urban Institute Press and Russell Sage Foundation. It will be published in January 1992. The book's findings are described in the Urban Institute's *Policy and Research Report*, Summer 1991, and in "Dispelling Myths About Where America's Homeless People Come From," by Spencer Rich, *The Washington Post*, December 1, 1991, p. A23.

**U.S. Conference of Mayors, *A Status Report on Hunger and Homelessness in America's Cities: 1991*, December 1991.

The distributional impact of the reductions made in state general cash assistance programs is especially striking. General assistance often constitutes the only source of cash income for its recipients. (Many do qualify for food stamps.) Those individuals who lost most or all of their income because they were cut from general assistance rolls have borne the largest deficit reduction burdens. Many of them have lost 100 percent of their cash income, as well as their medical coverage.

Further Cutbacks Likely in 1992

Unfortunately, it is likely the harsh state policies of 1991 will continue in 1992. Despite budget-balancing measures adopted earlier this year, the two largest states — California and New York — project fiscal year 1992 deficits of $3 billion and $875 million, respectively. New York is currently contemplating cuts in Medicaid and general assistance that may total more than $1 billion. Numerous other states that believed they had balanced their fiscal year 1992 budgets now find they, too, face sizable deficits. Some states have already instituted further cuts, including new reductions in programs for the poor. Arkansas and Washington have scaled back some Medicaid services. Maryland implemented major cuts in AFDC and general assistance on December 1. Florida adopted large reductions in AFDC, emergency assistance, and Medicaid in a special legislative session that ended December 13.

Moreover, the recent cuts in these four states could be just the top of the iceberg. In recent weeks, a series of new proposal have surfaced that are stunning in their harshness. Tennessee's governor has proposed a further 15 percent AFDC cut that would reduce benefits for a mother and two children with no other cash income to $157 a month, one-sixth of the poverty line. In California, the governor has proposed a 10 percent AFDC benefit cut, followed by an additional 15 percent cut once a family has been on AFDC six months. The governor has also proposed terminating benefits for first-time pregnant women, reducing SSI state supplements over time, scaling back Medicaid coverage for low-income elderly and disabled people who are not on SSI but have high medical bills, and repealing the requirement that California counties run GA programs providing monthly cash assistance payments to indigent people not eligible for AFDC or SSI.

In addition, Maine's governor has proposed terminating general assistance entirely, while Maryland's governor has called for ending general assistance for half the caseload, terminating emergency assistance for GA recipients as well, and restructuring AFDC in ways that may cause sharp reductions in benefits for some families. The New York Senate has proposed limiting general assistance benefits for nearly half of its caseload to 60 days out of the year.

The state fiscal situation for fiscal year 1993 also is bleak. As governors and legislators prepare to work on their 1993 budgets, the deficit forecasts they are receiving sound ominously similar to those issued a year ago for fiscal 1992. In Massachusetts, a $1.6 billion shortfall is expected. In California, the combined deficit for the remainder of the current fiscal year and the new fiscal year starting July 1, 1992 is projected at $5 billion to $8 billion. When governors unveil their FY 1993 budgets in coming weeks, additional proposals for cuts in programs for the poor are likely to be offered in some states.

The two most important factors accounting for the dismal fiscal outlook are the economy and the Medicaid program. Weak economic growth results in stagnant revenue. The recession has cost states more than $10 billion annually in lost revenue and higher costs for social programs.[88] Meanwhile, Medicaid is growing explosively, at more than a 20 percent annual rate. The "bootstrap" financing mechanisms many states adopted to help finance Medicaid have now been restricted as a result of new federal legislation. This action diminishes the availability of a fiscal vehicle that states have increasingly relied upon to help balance their budgets without making still deeper reductions in programs.

These are not the only causes of budget woes. Prison spending, especially to fight the drug war, is increasing at a double digit rate in many states, and school enrollments are growing about one percent annually (and considerably more rapidly in some places). Courts are mandating higher spending for many programs, including mental health, corrections, and Medicaid. It is no wonder most states have deficit problems.

In 1992, tax increases will be considerably tougher to pass than in 1991. This is true for three reasons. First, it is an election year, and governors and legislators prefer to raise taxes after elections rather than shortly before them. Second, many families have lower real income than when the recession began, making them more resistant to tax increases. Finally, anti-incumbent fever has made elected officials more concerned than usual about voter anger; in this environment, state officials may be especially reluctant to support higher taxes.

If taxes play a smaller role in balancing budgets, program cutbacks will loom larger, as will one-shot measures that postpone difficult budget choices until after the election. (Such measures include the deferral of payments to suppliers and aid to local governments, acceleration of tax revenue, asset sales, loans from state accounts with "excess" funds, and reduction of pension fund contributions.)

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[88] This is based on an estimate that a reduction of three percent in the growth path of the national economy raises state budget deficits more than $10 billion a year.

In this environment, cutbacks in programs for the poor may appeal to many state policymakers. Not only do the poor lack the political clout of other groups, but it is possible some states will find it more acceptable politically to cut such programs now that other states have done so.

States Can Shield the Poor

States can, however, choose to shield the poor from further cuts. The events of the past year show that various states have followed different courses in determining whether to protect their poor residents. Some have approached deficit-reduction with an eye toward ensuring that those with the lowest incomes — and those hit hard by the recession — did not bear excessive burdens. Other states can also follow this approach.

On the program side, some states reduced large deficits without cutting deeply into low-income assistance. This is feasible because the low-income programs represent a small proportion of state budgets. AFDC expenditures make up five percent or more of state expenditures in only two states. Even when expenditures for other cash assistance programs such as general assistance and SSI supplements are added in, there are only four states where total costs for cash assistance programs for low-income people exceed six percent of the state budget.[89]

States can use a combination of program cuts and revenue increases to balance their budgets. Contrary to popular impression, the vast majority of states did not increase taxes significantly for fiscal 1992. The state tax increases passed this year are estimated to total about $14 billion. While this has been described as the largest state tax increase in any year, that is misleading for two reasons:

- Approximately two-thirds of the total revenue increase occurred in California and Pennsylvania. In most other states, tax increases were relatively small. Only 12 states boosted taxes by an amount equal to as much as five percent of their total revenues. In short, most states had either modest tax increases or no tax increases at all.

- When measured as a proportion of total state tax revenues, the tax increases enacted nationwide were of about the same magnitude as the tax increases states passed in state legislative sessions in 1983 — and about half as large as those passed in 1971.

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[89] National Association of State Budget Officers, *State Expenditure Report: 1991*, September 1991. The figures cited here are for fiscal year 1991.

States that choose to raise taxes in the coming year can consider several different types of progressive tax packages. They can rely primarily on the progressive personal income tax to raise revenues, particularly through income tax increases aimed at those in the top brackets. Alternatively, if states rely more heavily on increases in regressive taxes, they can accompany such tax hikes with expanded tax relief provisions for low- or low- and moderate-income households, as five states did in 1991. Establishment or enlargement of state earned income credits, sales tax credits, and circuitbreakers are options that warrant consideration.

Recent federal policies provide other examples of how deficits can be reduced while protecting those with the lowest incomes. In 1985, when Congress passed the Gramm-Rudman-Hollings Balanced Budget Act, it included a provision exempting most basic benefit programs for the poor from the across-the-board cuts triggered under the Act when deficit targets are missed. AFDC, SSI, food stamps, Medicaid, WIC, and child nutrition programs are exempt from the across-the-board cuts.

In addition, the federal deficit reduction accord enacted in the fall of 1990 contained nearly $500 billion in deficit reduction measures over five years but managed to shield all major low-income benefit programs from cuts (and actually expanded Medicaid). Furthermore, the regressive gasoline, alcohol, and tobacco tax increases in the budget package were accompanied by a large increase in the federal earned income tax credit — so that the net effect on low-income households, as a group, was a slight reduction in tax burdens.

The 1990 federal budget agreement also illustrated one other point — how important it would be for state policymakers to have access to data showing the impact on households at different income levels of various tax increase or benefit reduction proposals. Such data played a critical role in the federal budget negotiations in 1990 — and were responsible in significant part for major changes made during the budget negotiation process that led to more significant tax increases on the very wealthy (rather than on the middle-class and the poor) and to the inclusion of various provisions protecting these at low- and moderate-income levels. By contrast, few states had such data this year. State efforts to build the capacity to provide such data on a timely manner when deficit reduction measures are being considered, especially measures to raise revenues, would be very useful and could help lead to more balanced policies.

Implications for Federal Policy and Federalism

If federal policies are to be cited as any type of example, it should be noted that federal policies themselves have contributed in no small way to the state fiscal crisis. Over the past decade, the federal government has managed simultaneously to pursue policies greatly swelling the federal deficit and thereby weakening the national economy, while also cutting deeply into federal support for state and local governments. Federal grants to state and local governments, excluding grants for entitlements passed through to individuals in programs such as AFDC and Medicaid, fell 34 percent from fiscal year 1980 to fiscal year 1991, after adjustment for inflation.[90] This has made it considerably more difficult for states to balance their budgets and meet the needs of their citizens.

In addition, with the federal budget deficit expected to surpass $350 billion in the current fiscal year, the federal government has largely foresworn the countercyclical measures typically used to "prime the pump" during recessions. The extension of unemployment benefits is the one exception to this pattern, and it came more than a year after the recession started — and only after the number of jobless workers exhausting regular unemployment benefits, without being able to receive any further unemployment assistance, reached its highest level in at least 40 years. Even with the additional unemployment benefits recently enacted, the unemployment insurance system remains significantly weaker than in previous recessions. And while the federal government may take some further actions to boost the economy in 1992, these are more likely to take the form of tax cuts (including tax cuts of dubious economic merit that would primarily benefit upper-income taxpayers and could increase the federal deficit over the long term) rather than countercyclical aid to hard-pressed state and local governments.

One lesson emerging from the painful budget crises in state capitals across the nation is that federal policies can have profound consequences on other levels of government. Of course, in a number of states, the fiscal crises reflect significant structural problems in state budgets themselves, as well as the effects of the recession and flawed federal policies.

Another lesson involving the federal government can be drawn. If poor households are to be shielded from deep cuts that can cause destitution and even homelessness, federal standards — accompanied by the requisite financial resources — are necessary. Such standards and the accompanying financing can be found in the food stamp program and the basic federal benefit structure in SSI. In addition, federal standards regarding AFDC coverage for two-parent families and Medicaid coverage for pregnant women, infants, and young children have led to increases in coverage for these groups in recent years and protected these groups from losing AFDC or Medicaid eligibility in state budget cuts this year. Furthermore, a federal law that threatens to terminate federal Medicaid matching funds if a state cuts AFDC benefits below the state's May 1988 benefit level may have helped prevent some states from instituting even deeper AFDC reductions than those already made.

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[90] Office of Management and Budget, *Budget of the United States Government: Fiscal Year 1992*, February 1991, Part Seven, page 132.

In the current political atmosphere, however, the federal government seems unlikely to come forth with increased federal financing for these programs. As a result, a move toward stronger national standards is improbable. A case can be made for a realignment of federal and state roles in which the federal government assumes responsibility for a larger share of AFDC and Medicaid costs and establishes stronger national standards in these areas, while turning over to states (and reducing or ending federal financing for) a range of other, primarily non-low income programs. But such a case has been made before,[91] and a realignment of this nature is not on the immediate political horizon.

In short, many of the most significant decisions regarding support for low-income people remain firmly in state hands. In 1992, many states will face decisions of profound importance to low-income families and individuals.

The roles played in this drama by the recession and by shortcomings in federal policy do not absolve states of responsibility for these decisions. States set their own budget priorities. These priorities can reflect a commitment to protecting their poorest residents from large cuts or significant tax increases — or they can plunge those whose incomes already fail to meet society's standard for a minimum level of subsistence still deeper into poverty.

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[91] For example, in the report issued in 1985 by the bipartisan Committee on Federalism and the National Purpose.

Appendix: Additional State Summaries

In addition to the states cited in Chapter VI, there were ten other states where major changes to low-income programs occurred. These states are Connecticut, Florida, Kansas, Minnesota, New York, North Carolina, Tennessee, Vermont, Washington, and Wisconsin. In most of these states, low-income programs were cut back substantially. Numerous other states not listed here also cut one or more low-income programs, while a few others made program expansions.

- *Connecticut* reduced its general assistance program, sliced SSI supplemental benefits $34 a month — or about $400 a year — for elderly individuals living alone, reduced coverage for certain health services under both its Medicaid and general medical assistance program, cut emergency housing assistance for the homeless nearly one-fifth, and slashed state appropriations for low-income housing by $43 million, or nearly one-third. On the other hand, Connecticut reduced tax burdens on the poor by lowering its sales tax rate from eight percent to six percent when it instituted an income tax.

- In a special legislative session ending in mid-December, *Florida* cut its AFDC emergency assistance program approximately in half, terminated its Medically Needy program, and made other cuts in Medicaid services. The Medicaid changes include the elimination of various key Medicaid services, such as prescription drug coverage, for elderly and disabled people with incomes between 90 percent and 100 percent of the poverty line. The state did approve a three percent increase in AFDC benefits that should keep benefits about even with inflation.

- *Kansas* cut its Medically Needy program, eliminating Medicaid coverage for parents and other caretakers in low-income families that are not on AFDC but have high medical expenses. Kansas also cut its general assistance program.

- *Minnesota* made deep cuts in its general assistance program, limiting benefits to five months in a 12-month period for "employable" recipients who are considered literate and to seven months for those considered illiterate. As a result, 6,000 recipients had their benefits terminated on December 1, and many lost medical coverage as well. In addition, new residents of the state will, during their first six months in the state, receive only the lesser of the GA benefit level in the state from which they came or 60 percent of the Minnesota benefit level. In addition, benefits for new GA recipients will be delayed for up to one month. The state did increase funding for WIC, homeless assistance, and low-income housing programs, although the increases were much smaller than the GA cuts. Finally, the state increased the sales tax and other regressive taxes, but offset the impact of the tax increases on working families with children by establishing a state earned income tax credit.

- *New York* reduced coverage for Medicaid services, restricting the number of physician visits, lab tests, and drug prescriptions that may be covered each year. Further Medicaid cuts are virtually certain as the state struggles to close its deficit. The state also made modest cuts in both general assistance and emergency assistance. In addition, New York raised taxes in a regressive manner that disproportionately affected those with low incomes. The state did, however, increase funding for homeless housing assistance programs.

- *North Carolina* increased the copayments that Medicaid recipients must pay for drug prescriptions and visits to physicians. On the other hand, the state expanded the prenatal services covered under Medicaid for pregnant women and raised funding for the WIC program. The state declined to renew a small, $1 million appropriation made for low-income housing in fiscal year 1991. Finally, about three-fourths of the tax increases adopted came from increases in regressive taxes, primarily the sales tax.

- Despite having some of the lowest AFDC benefits in the nation, *Tennessee* cut benefits five percent. The monthly benefit for a family of three with no other income fell to $185 a month, or 20 percent of the poverty line. The governor recently proposed reducing benefits an additional 15 percent. If approved, that proposal would cut benefits to approximately $157 a month and make Tennessee the second lowest benefit state in the nation. On a more positive note, Tennessee acted this year to extend Medicaid coverage to pregnant women and infants with incomes between 150 percent and 185 percent of the poverty line.

- *Vermont* imposed on most adult Medicaid recipients a $50 copayment for each day of inpatient hospital care and a $3 copayment for outpatient care. It also cut AFDC benefits by one percent and reduced state funding for low-income housing. On the tax side, the state raised both progressive and regressive taxes, but accompanied these taxes with an expansion in its low-income sales tax credit. It also allowed its state earned income tax credit to increase in value. Facing a deficit of similar magnitude to those facing Maine and Massachusetts, Vermont instituted less severe cuts.

- *Washington* eliminated coverage on December 1 for a range of Medicaid services for adult beneficiaries. The state did increase funding for the WIC program, but this increase may be partially rolled back. The state also cut its general assistance program.

- *Wisconsin* cut SSI supplemental benefits $10 a month for elderly individuals and $20 a month for elderly couples, the third largest dollar reduction made by any state. The state did expand dental coverage under Medicaid and allowed its state earned income credit to increase in value, in accordance with the expansions in the federal earned income credit.

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